

The Economist

Europe's Silicon Valley

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CHINA'S EV ONSLAUGHT



RICHARD MILLE



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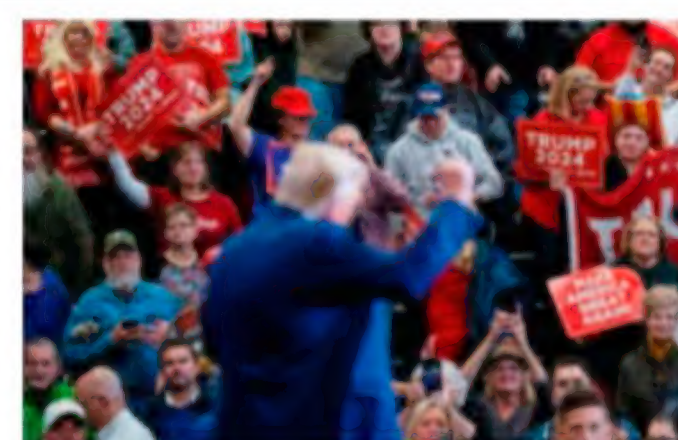


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In a further effort to stop **Israel's** war in **Gaza** from escalating, Antony Blinken, America's secretary of state, made his fourth visit to the Middle East since the fighting began in October. Tensions on Israel's border with Lebanon have been rising since the assassination of a Hamas leader in Beirut and a strike in southern Lebanon, believed to have been carried out by Israel, which killed a Hizbullah commander. Mr Blinken called on regional powers which have influence over Hizbullah (namely Iran) to "keep things in check".

Saudi Arabia's ambassador to Britain said that his country was still interested in normalising relations with Israel after the war in Gaza, but that progress must lead to the establishment of a Palestinian state.

Hearings began at the **UN International Court of Justice**, where South Africa has brought a case accusing Israel of committing genocide in Gaza. Mr Blinken said the charge was "meritless".

The Houthis, an Iranian-backed rebel group in Yemen, launched their largest attack yet on ships in the **Red Sea**. American and British naval forces shot down 21 drones and missiles launched by the group in a single night.

A \$20bn mining project was set to begin development in **Guinea**, a west African country of 13m people with a GDP of just \$16bn. It will involve building an iron-ore mine, railway and port.

America is negotiating with several coastal **west African**

countries to establish bases for surveillance drones to monitor jihadist activity. In 2023 it paused the flight of drones from its existing base in Niger after a coup there.

Ethiopia held talks on military co-operation with **Somali-land**, just a week after the breakaway region of **Somalia** announced a deal to lease a stretch of coast to landlocked Ethiopia for a port and naval base. Somalia has criticised the deal as an infringement on its sovereignty.

A state of emergency

Ecuador's new president, Daniel Noboa, said the country faced an "internal armed conflict" after masked gunmen stormed a television studio in the city of Guayaquil during a live news broadcast. This came as violence swept the country following the disappearance of a notorious gang leader from a prison in Guayaquil, which also triggered rioting in prisons across Ecuador. Mr Noboa ordered the armed forces to "neutralise" Ecuador's drug-trafficking gangs.

A panel of three judges on a federal appeals court in Washington heard arguments over whether **Donald Trump** is immune from prosecution for allegedly trying to overturn the election in 2020. Earlier, the Supreme Court said it would rule on whether Mr Trump should appear on the Republican primary ballot in Colorado following the state court's decision to boot him off. But the Supreme Court won't hear the case until February 8th, after the start of the primary season. Colorado holds its primary on March 5th.

It emerged that **Lloyd Austin**, America's defence secretary, had surgery to treat prostate cancer in December and had failed to notify Joe Biden or his staff. The revelation came after news that Mr Austin had been readmitted to hospital on January 1st and had again not informed the White House about his condition.

Taiwan's Office of Trade Negotiations called on **China** to "stop using economic coercion to try to interfere" with the country's general election on January 13th. This was after China threatened to end concessions that ease trade with Taiwan. The rhetoric has intensified between the two sides ahead of the poll. China accused Taiwan's ruling Democratic Progressive Party of engaging in "dirty tricks".

South Korea's parliament passed a bill that bans the farming and sale of **dog meat**. Anyone slaughtering a dog for food could face prison and a hefty fine, though there are no penalties for consumers who eat the meat. Once favoured as a cheap source of protein, dog meat has gone out of fashion in South Korea and other Asian countries as more people keep dogs as pets.



Sheikh Hasina secured another term as prime minister of **Bangladesh** when her Awami League won a general election that was boycotted by other parties. Thousands of members of the opposition Bangladesh Nationalist Party were arrested in the weeks leading up to the poll. The official turnout was 42%; the opposition said it was much lower.

Emmanuel Macron appointed Gabriel Attal as the new prime minister of **France**. Elisabeth Borne resigned from the job following the debacle surrounding an immigration bill that passed only after concessions were made to the far-right National Rally. The popular Mr Attal is just 34 and gay, and comes from the class of MPs elected in 2017 when Mr Macron became president.

Charles Michel seemed set to step down in June as president of the **European Council**, after he announced that he would stand in his native Belgium as a candidate for the European Parliament. Mr Michel has led the council, which sets the agenda for European Union summits, since 2019. Mario Draghi, a former Italian prime minister, is being tipped to replace him.

German farmers drove their tractors into Berlin to protest against government cuts to subsidies on diesel fuel. The march of the tractors was replicated throughout **Germany** causing traffic snarl-ups. Adding to the pressure on the government, data confirmed that asylum applications had surged by 51% in 2023, to nearly 352,000. The government has been toughening its position on migration as it loses ground to the far right in opinion polls.

Around 1,000 towns and villages were left without power in **Ukraine**, as temperatures plummeted to -15°C (5°F). The freezing weather damaged distribution networks and equipment in a power network system that has not fully recovered from Russian attacks last winter. Lengthy power blackouts are also afflicting **Russia**. Residents near Moscow saw their heat and lighting go out as temperatures fell to -20°C.

Compulsive viewing

A long-running scandal in **Britain** involving erroneous accounting at post offices came to the political fore. Hundreds of "sub-postmasters", self-employed people who operate small postal offices, have been wrongly convicted of false accounting because of faulty software provided to them by the Post Office. A television drama has highlighted the case, enraging the public and prompting Rishi Sunak, the prime minister, to promise a new law to overturn the convictions and compensate the postmasters.

China became the **world's biggest exporter of vehicles** in 2023, according to the China Passenger Car Association. The association thinks that China exported nearly 5.3m vehicles last year, accelerating it past Japan, which is thought to have sold 4.3m vehicles abroad. Petrol-powered vehicles accounted for the bulk of the exports (notably to Russia), but electric vehicles are taking a growing share of China's overseas market. The CPCA reckons that 6.1m full-electric vehicles were sold in China last year, up by 22% from 2022.

Backseat driver

As Chinese carmakers move into top gear, **Volkswagen** finds itself falling behind in China, which was once a source of ambitious growth for the German company. VW's sales in China rose by just 1.6% in 2023 (the overall domestic market grew by 5.6%), though the country still accounts for a third of its global market. VW is also struggling to keep up with demand for EVs. It delivered 394,000 fully electric vehicles worldwide in 2023, far behind the 1.6m that were sold by BYD, China's biggest electric-car maker.

Boeing's chief executive, Dave Calhoun, promised that the aerospace company would be completely transparent in helping an investigation into an incident in which a panel came off a 737 Max 9 passenger jet that had just taken off from Portland. Nobody was injured on the Alaska Airlines flight, which returned to the airport with a gaping hole in its side. The Federal Aviation Administration grounded some 737 Max 9s while inspections were carried out. The investigation's initial focus is on the bolts that secured the panel, which fell into a teacher's garden in Portland.

OpenAI responded in detail to a lawsuit lodged by the *New York Times* that claims the startup used the newspaper's content to create and train its chatbot, ChatGPT. In a blog

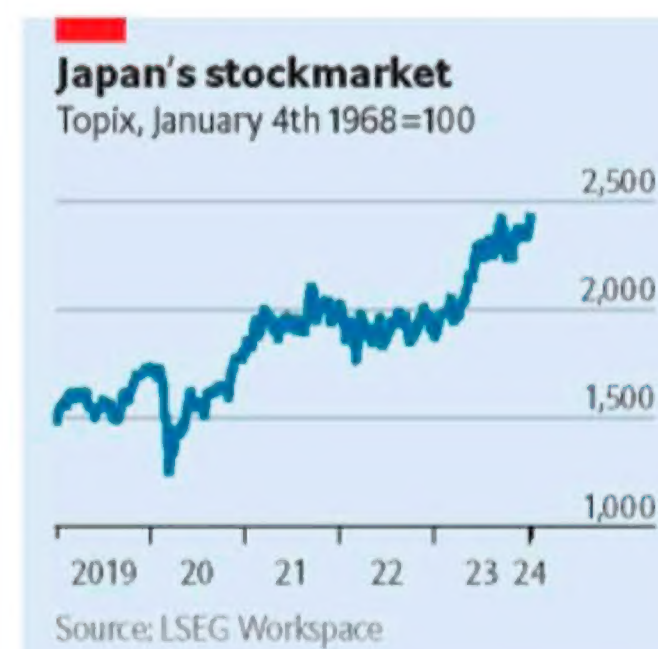
post OpenAI said the lawsuit was "without merit", and that the *Times* was "not telling the full story".

Meanwhile, the European Union announced an initial probe into whether **Microsoft's** huge investment in OpenAI falls foul of its law on mergers. Britain's antitrust regulator opened a similar review in December.

America's Securities and Exchange Commission approved applications from some of the world's biggest financial companies, such as BlackRock, to start offering **exchange-traded funds** tied to bitcoin for the first time, a huge boost for advocates of cryptocurrencies. The day before the announcement the X account of the SEC was **hacked** by an attacker who posted a fake announcement that the regulator had already approved the ETFs, causing bitcoin's price to rise briefly by more than \$1,000.

Hewlett Packard Enterprise agreed to buy **Juniper Networks** in a deal valued at \$14bn. The acquisition will double HPE's computer-networking business, and it also obtains Juniper's artificial-intelligence unit, Mist AI, which uses machine

learning to improve user access to wireless systems.



Stockmarkets in most countries may have had a patchy start to the year—with China's CSI 300 index falling to a five-year low—but not in **Japan**. The Nikkei and the Topix indices hit their highest levels since early 1990, boosted by investor cheer that the weaker yen is helping exports.

Bill Ackman became embroiled in a spat with **Business Insider**, a news website, after it claimed that his wife, Neri Oxman, had plagiarised some work in her doctoral dissertation at MIT in 2010 (Ms Oxman apologised for errors in four instances). Mr Ackman, one of America's best-known activist investors, was a vocal critic of Claudine Gay, who resigned as Harvard's president amid claims of plagiarism. Axel Springer, the web-

site's publisher, took the rare step of ordering a review into the "motivation and the process" behind the piece.

Overall losses from **natural disasters** around the world came to \$250bn in 2023, about the same as 2022, according to Munich Re. An absence of mega-disasters in industrialised countries kept the figure down. The earthquakes in Turkey and Syria were the costliest disasters (\$50bn in losses) followed by Typhoon Doksuri, which hit China (\$25bn). Munich Re noted that 74,000 people died in natural disasters, far above the five-year average of 10,000.

The great British bake off

Greggs, a purveyor of cheap and cheerful sandwiches and snacks in Britain, registered a 20% rise in sales in 2023 as it opened lots of new stores. The downmarket chain is often contrasted with the mid-market Pret a Manger, which operates in swankier areas. Academics from Sheffield Hallam University have even gone so far as to create a Greggs-Pret index using machine learning (what else) to assess if the number of Greggs shops in a town are a good measure of its "Northern-ness".



China's EV onslaught

Chinese cars are coming to the West. It should welcome them

IS CHINA ABOUT to unleash another wave of deindustrialisation on the rich world? About 1m American manufacturing workers lost their jobs to Chinese competition in 1997-2011, as the country integrated into the global trading system and began shipping cheap goods overseas. This "China shock" has since been blamed for everything from rising deaths among working-class Americans to the election of Donald Trump. The rejection of liberal attitudes to trade also explains why politicians embrace industrial policy today. Now China's carmakers are enjoying an astonishing rise. That stokes fears of another ruinous shock. In fact, the successes of Chinese cars should be celebrated, not feared.

Just five years ago China shipped only a quarter as many cars as Japan, then the world's biggest exporter. This week the Chinese industry claimed to have exported over 5m cars in 2023, exceeding the Japanese total (see Briefing). China's biggest carmaker, BYD, sold 0.5m electric vehicles (EVs) in the fourth quarter, leaving Tesla in the dust. Chinese EVs are so snazzy, whizzy and—most important—cheap that the constraint on their export today is the scarcity of vessels for shipping them. As the world decarbonises, demand will rise further. By 2030 China could double its share of the global market, to a third, ending the dominance of the West's national champions, especially in Europe.

This time it will be even easier for politicians to pin the blame for any Western job losses on Chinese foul play. A frosty geopolitical climate will feed the sentiment that subsidised production unfairly puts Western workers on the scrapheap. And there have certainly been subsidies. Since the launch of its "Made in China" agenda in 2014, China has brazenly disregarded global trading rules, showering handouts on its carmakers. It is hard to be precise about the value of the underpriced loans, equity injections, purchase subsidies and government contracts Chinese firms enjoy. But by one estimate, total public spending on the industry was in the region of a third of EV sales at the end of the 2010s. These subsidies come on top of the ransacking of technology from joint ventures with Western carmakers and Western and South Korean battery-makers.

The temptation will therefore be for rich-world policymakers to shield their carmakers from the onslaught of state-backed competition (see Finance & economics section). In October the European Commission opened an investigation into Chinese cars. President Joe Biden is said to be considering increasing tariffs on them, even though America's carmakers, protected by a 27.5% levy and handouts from the Inflation Reduction Act, currently face little Chinese competition. Yet locking out Chinese cars would be a mistake. The potential gains to the West from a ready supply of cheap, green vehicles are simply enormous—and dwarf the cost of disruption and the dangers it brings.

One reason is that the market for cars is going to be upended, regardless of trade with China. In 2022, 16-18% of new cars sold around the world were electric; in 2035 the EU will ban the sale of new cars with internal-combustion engines. Though firms are retaining their workers as they switch to making EVs, the process is less labour-intensive. Much as the first China shock was

responsible for less than a fifth of total manufacturing job losses occurring at the time—many of which were attributable to welcome technological advances—so too there is a danger of confusing disruption caused by the shift to EVs with that caused by Chinese production of them.

Next consider the gains from letting trade flow. Vehicles are among people's biggest purchases, accounting for about 7% of American consumption. Cheaper cars mean more money to spend on other things, at a time when real wages have been squeezed by inflation. And Chinese cars are not only cheap; they are better-quality, particularly with respect to the smart features in EVs that are made possible by internet connectivity. Nor does the existence of a carmaking industry determine a country's economic growth. Denmark has among the world's highest living standards without a carmaker to speak of. Even as cars roll off Chinese assembly lines, the economy is spluttering—in part because it has been so distorted by subsidies and state control.

Last, consider the benefits to the environment. Politicians around the world are realising just what a tall order it is to ask consumers to go green, as a backlash against costly emissions-reductions policies builds. EVs, too, are currently more expensive than gas-guzzling cars (even if their running costs are lower). Embracing Chinese cars with lower prices could therefore

ease the transition to net-zero emissions. The cheapest EV sold in China by BYD costs around \$12,000, compared with \$39,000 for the cheapest Tesla in America.

What about the risks? The threat to industry from cheap imports is usually overblown. The lesson from the rise of Japanese and South Korean carmakers in the 1980s is that competition spurs local firms to shift up a gear, while the entrants eventually move production closer to consumers. Already, BYD is opening a factory in Hungary and many Chinese carmakers are scouting for sites in North America. Meanwhile the likes of Ford and Volkswagen are racing to catch Chinese firms. Last year Toyota said a breakthrough in its "solid state" technology would let it slash the weight and cost of its batteries.

Another worry is national security. Depending entirely on China for batteries, whose importance to electrified economies will go far beyond cars, would be risky. It is also possible that EVs, which are filled with chips, sensors and cameras could be used for surveillance. (China has banned even locally made Teslas from some government properties.) But so long as presidents and spooks can travel in vehicles made in the West or by its allies, there is little reason to fear consumers sporting Chinese wheels; they can adjudicate personal-privacy concerns themselves and locally made cars will be easier to inspect.

Policymakers should therefore curb their protectionist instincts and worry only in the unlikely event that Western carmakers implode altogether. A hefty market share for Chinese carmakers that invigorates wider competition, however, is not to be feared. If China wants to spend taxpayers' money subsidising global consumers and speeding up the energy transition, the best response is to welcome it. ■



Geopolitics and the ocean

Who will rule the waves?

The struggle for naval mastery threatens free trade and global security

AROUND THE world a storm is building on the oceans after decades of calm. In the Red Sea Houthi militias have launched dozens of attacks on ships with drones and missiles, cutting container activity in the Suez canal by 90% while cocking a snook at the US Navy. The Black Sea is filling up with mines and crippled warships; this year Ukraine hopes to eject the Russian navy from Crimea, its base since Catherine the Great. The Baltic and North seas face a shadow-war of pipeline and cable sabotage. And Asia is seeing the largest build-up of naval power since the second world war, as China tries to coerce Taiwan into unifying and America seeks to deter a Chinese invasion. After Taiwan's election this week, tensions there could soar.

These events are not a coincidence, but a sign of a profound shift taking place on the planet's oceans (see International section). The world economy is still globalised. Some 80% of trade by volume and 50% by value travels on a fleet of 105,000 container ships, tankers and freight vessels that ply the oceans day and night, taken for granted by the people whose livelihoods depend on them. Yet superpower rivalry and the decay of global rules and norms mean that geopolitical tensions are deepening. The inevitable and underappreciated consequence is that oceans are a contested zone for the first time since the cold war.

The quest for opportunity and order at sea has a long history. In the 17th century Grotius, a Dutch jurist, laid out the principle of freedom of navigation and in the 19th Britain enforced it by means of the Royal Navy and a network of ports and forts. Open oceans were enshrined in the post-1945 order and, from the 1990s, the maritime world reflected the rise of globalisation and American power. That emphasised hyper-efficiency and extreme concentration. Today 62% of containers are carried by five Asian and European firms, 93% of ships are built by China, Japan and South Korea, and 86% are scrapped in Bangladesh, India or Pakistan. The US Navy's specialist role has been as the near-monopoly provider of security, using over 280 warships and 340,000 sailors.

This vast and intricate system faces two challenges. One is fraught geopolitics. China's naval build-up means the US Navy's primacy in the Pacific is being contested for the first time since 1945. There are more rogue actors. As well as the Iran-backed Houthis, landlocked Ethiopia's dictator is leasing a Red Sea naval base in neighbouring Somaliland. The law of the sea is in decline. China ignores tribunal rulings that it objects to. And the West's use of sanctions has triggered a smuggling boom: 10% of all tankers are part of an anarchic "dark fleet" operating outside mainstream laws and finance—twice the share of 18 months ago.

The geopolitical winds are being strengthened by technological and climate disruption. China has invested in anti-ship missiles, pushing US Navy vessels farther offshore. Arms proliferation means militias like the Houthis now have cruise missiles, a capability that, until recently, only states possessed. The knowledge economy—and the dominance of Wall Street and Silicon Valley—depend on 600-odd subsea data cables vulnerable to sabotage. Climate shifts are changing geography and incen-

tives. The Panama canal is short of water (see Americas section); trade routes are expanding in the Arctic as it melts; and the green-energy boom is catalysing a scramble to mine the seabeds.

Disorder therefore looms on the high seas. One cost will be transient disruptions to commerce. Seaborne trade is worth about 16% of global GDP. The shipping system is adaptable but only up to a point. Single shocks can often be absorbed. The Houthi attacks have so far caused a spike in insurance and shipping rates, but have not yet led to broader price rises, because the container and oil markets have spare capacity (see Finance & economics section). When markets are tight or there are synchronous shocks, the penalty is higher. The post-lockdown shipping crunch in 2021 and the Black Sea grain disruptions in 2022 caused worldwide inflation. Although shipping is a low share of most products' final price, unpredictability at sea would lead firms to shrink their supply chains, adding to costs.

Large-scale conflicts at sea could be devastating. Maritime confrontations have their own distinct qualities, because the difficulty of rapidly reinforcing fleets means that escalation is less likely than on land. Still, it is easy to identify where conflict could break out. Attacks by, say, Iran or Russia on pipelines, liquefied-natural-gas routes or data cables could be crippling. Spats over strategic islands could trigger confrontation in the South China Sea and Indian Ocean (see Asia section). And embargoes of economies more sophisticated than Russia's or Iran's could do enormous damage. A simulation by Bloomberg shows a blockade of Taiwan and Western countermeasures cutting global GDP by 5%.

All this shows the need to deter rogue actors and hostile states. Yet there is no easy passage back to the calm waters of the 1990s. Appeals to uphold universal laws are unlikely to succeed. Trade-dependent China has much to lose, but wants to subvert Western sanctions and pursue illegal claims in the South China Sea. It does not help that America has not ratified the main global treaty on maritime law. Nor can the West quickly re-establish its naval dominance after chronic underinvestment. With a puny 5% of global shipyard capacity, it will need decades to rebuild its fleets.

Dead calm

A different response is needed. Western countries must double-down on maintaining their technological edge, in submarines and autonomous vessels, for example. Government and private-sector co-operation in monitoring vulnerable maritime infrastructure such as pipelines is critical, as are sea-based and satellite backups for data cables. And alliances need to be broadened in order to make more resources available for policing the seas. America is rebuilding its Asian naval pacts and the emerging response to the Houthis in the Red Sea is a promising model, with a rising number of Western and Asian navies playing a role. Because of the stakes, sustaining a maritime order is the lowest common denominator of international co-operation. It is something that even isolationists should subscribe to. Without it, the world economy would be sunk. ■



Olaf Scholz

The hole at the heart of Europe

A lack of leadership is hobbling the continent. Germany's chancellor is the most to blame

AN OLD STORY, pointed if apocryphal, had the late Henry Kissinger complaining, "Who do I call if I want to call Europe?" In fact, for long periods of time (admittedly after Kissinger had left government), there was a good answer. During most of the 1980s and 1990s it was Helmut Kohl, the German chancellor, and from 2005 till the end of 2021, it was Angela Merkel. So large, rich and generally weighty is Germany that nothing important happens in Europe unless its chancellor wants it to, and what the chancellor wants, she or he usually gets. Until now.

A Google search reveals that the leader of Germany is a man called Olaf Scholz, but so colourless and unimpressive a figure does he cut that you would be forgiven for not knowing it. While the European economy stagnates, the hard right climbs in the opinion polls almost everywhere and Vladimir Putin's rockets rain down on Ukraine, a candidate member of the European Union, Mr Scholz is all but invisible. His Social Democrats are only the third-most popular party in Germany, with a derisory 15% level of support. Most of his time has to be spent propping up his rickety three-way coalition.

This distracted impotence matters far beyond Germany (see Europe section). The EU has been left leaderless by Mr Scholz's absence. Germany has to be the driver, whether raising cash for Ukraine, fixing migration problems, building the capital-markets union, reforming the system so that Ukraine and others can be admitted, or preparing Europe for all that a Trump victory in November would entail. Mr Kohl and Mrs Merkel knew this, and travelled and negotiated ceaselessly. Europe prospered as a result. That idea seems completely alien to the taciturn Mr Scholz, a solid supporter of Ukraine who has failed to inspire others.

Obviously, it is not all up to the chancellor. The vital adjunct to a strong Germany is a strong France. Yet Emmanuel Macron,

Mr Scholz's counterpart, has become widely disliked at home; he lost his parliamentary majority in 2022, and struggles to get legislation passed. This week he sacked his prime minister, as beleaguered French presidents are wont to do, and appointed Gabriel Attal, a charismatic but under-experienced 34-year-old. In the past Mr Macron was a champion of reform, but these days his ability to influence Europe is diminished.

More crucially, Mr Scholz and Mr Macron are said by insiders to get on badly, partly because their personalities are so different, but also because they have irreconcilable views. Mr Macron favours more European-level spending, more independence from NATO and America and a *dirigiste* economic policy, yet the flinty Mr Scholz agrees with none of that. Differences of outlook can be productive if there is a willingness to work together; but there isn't.

The news is not uniformly awful. Although the Franco-German motor that used to run Europe is broken, a few auxiliary mechanisms are still firing. One is the president of the European Commission, Ursula von der Leyen, a rather more effective German than Mr Scholz, and one who deserves reappointment in the autumn. She has used her position well, arguing for and making good use of a €800bn (\$875bn) covid-recovery fund; but her powers are limited and she is no Jacques Delors (see Charlemagne), who united European leaders to build the single market and single currency. Another motive force is Donald Tusk, Poland's new prime minister and a former president of the European Council. Unfortunately, he will be busy attempting to gain control at home.

Even if Joe Biden wins in November, America is pulling back from its role as Europe's main source of security. Europe is going to have to spend and do more to keep its citizens safe. Yet instead of rising to the challenge, Europe's leaders are looking inward. ■



Business and the culture wars

Muddled thinking

How to cut through the cacophony over DEI

WHAT, IF ANYTHING, should firms do to improve the diversity of their workforce? After the murder of George Floyd in 2020, many bosses felt compelled to act. Partly out of fear of being called out for prejudice, corporate America rushed to embrace diversity, equity and inclusion (DEI) schemes. By 2022 three-quarters of the S&P 500 had a chief diversity officer; more than two-fifths of listed firms set targets to increase the racial diversity of their workforce (see Business section). Now many think the pendulum has swung too far.

The resignation of Claudine Gay, a black woman, as president of Harvard University has ignited a broader debate about merit and identity. Bill Ackman and Elon Musk, two billionaires, have excoriated DEI for itself being discriminatory. After the Supreme

Court's landmark decision to end affirmative action in university admissions last summer, many activists and politicians increasingly have corporate DEI schemes in their sights.

As America's culture wars rage on, bosses are being caught in the middle. Progressives argue that DEI enables companies to do their bit to tackle America's entrenched inequalities. Conservatives see it as an attack on meritocracy. One side ignores the costs of many DEI schemes, the other ignores the real benefits of diversity. How should businesses cut through the noise?

The critics are right that the thinking on DEI is muddy, and that many DEI initiatives are ineffective, even harmful. In 2015 McKinsey, a consultancy, identified a positive correlation between the gender and ethnic diversity of the workforce and ►►

► firms' profitability. Although academics have since criticised its methodology, the findings were breathlessly cited by bosses and corporate advisers, and the link was treated as causal and cast-iron. For example, from 2023 Nasdaq required firms listed on its stock exchange to have at least one board member who was not a straight white man—or explain why they do not. It was left to Jesse Fried, a professor at Harvard Law School, to point out that Nasdaq was ignoring scholarship which finds that board diversity can have a negative impact on performance.

Diversity schemes often fail. Sometimes this betrays bad faith: firms with a discrepancy between their words and actions are often accused of "diversity washing". Some schemes are well-meant but ineffective. Research by Frank Dobbin and Alexandra Kalev showed that diversity training programmes fail to reduce bias. In the worst instances, DEI initiatives backfire. Targets can be seen as quotas, which undermine the principle of fair competition and cast a shadow over minorities who do well under them. Other research shows that adding equal-employment statements to job advertisements can put minority candidates off applying. No wonder support for votes on social is-

ues at annual general meetings is draining away.

The case for diversity does not need dressing up in pseudoscience. The simple reason for businesses and their shareholders to care about recruiting people from a broad range of backgrounds is that they want the most able people. Mr Musk and Mr Ackman are both successful businessmen: they too want to assemble the best possible teams.

Opus DEI

Diversity should be a spur to looking far and wide for talent, no matter someone's gender, race or sexual orientation. A firm convinced that it is overlooking the best candidates from a particular demographic cohort, for example, could choose to lengthen its shortlists to include more from that group. That will not mechanically create workforces that mirror the population, but it can maximise talent and diversity of thought. Quotas, by contrast, have the perverse effect of narrowing the search by excluding talent. As with so many areas touched by the culture wars, the row over DEI has become muddle-headed. The clear, simple argument for diversity is being drowned out. ■

Charity

Start writing cheques

"No-strings giving" is transforming philanthropy

IT IS CERTAINLY difficult to make money. But should money be difficult to give away? In the Gilded Age, industrialists such as Andrew Carnegie and John D. Rockefeller worried about waste and misuse; Carnegie wrote in 1889 that \$950 of every \$1,000 that went to charity was "unwisely spent". Around the turn of the millennium a new cohort of businessmen-philanthropists such as Bill Gates, the founder of Microsoft, looked to data and rules as a way to stop waste. Donors ran lengthy application processes, provided funds that were ring-fenced for specific uses and enforced painstaking reporting requirements. In 2006 *The Economist* called it "philanthrocapitalism".

Two decades on, however, it has become clear that all this paperwork puts the brakes on giving. The 400 richest Americans have given away just 6% of their combined fortunes, according to *Forbes*. At the last count in 2022, almost \$1.2trn was sitting in American private foundations and \$230bn in donor-advised funds, a sort of savings account for philanthropists. Plenty of money is being earmarked for do-goodery. But it is not getting to worthy causes fast enough.

Fortunately, a new generation of donors is once again shaking up the world of big philanthropy, as we explore in our Special report this week. A series of crises, from the covid-19 pandemic to the wars in Ukraine and the Middle East, has spurred some donors to get money to the needy quickly.

Leading the charge is MacKenzie Scott, who came into a tidy fortune in 2019 after her divorce from Jeff Bezos, the founder of Amazon. She has outsourced the grunt work of philanthropy to advisers, simplified the process of giving and is dishing out billions of dollars a year with few conditions. This "no-strings giving" is upending megadonors' long-held assumptions. It offers lessons for those struggling to get money out of the door.

One is the recognition that philanthropists do not have to do everything themselves. Megadonors no longer need to endure the hassle of setting up a foundation and hiring staff. An upside of a decades-long trend for businesslike philanthropy is that legions of consultants have emerged to help donors draw up a strategy and conduct due diligence on potential recipients. Donors can team up and share the work, too.

Another lesson from the no-strings crowd is that philanthropists can trust recipients to put money to good use once the proper due diligence is in place. That means analysing a non-profit organisation's annual reports and interviewing its leaders and other funders. Once the grant has been made, however, donors

who ask for regular reports containing specific data presented in a certain format risk slowing projects down. Ms Scott asks some grant-winners to send her a short update every year that includes whatever information they have to hand. Any nonprofit worth funding wants to be sure its work is having the intended effect; it will almost certainly have enough internal data and evaluation to satisfy donors.

Last, megadonors do not have to make all the decisions. Many big-shot philanthropists spend a lot of time and money crafting projects and strategising about how exactly money should be used. Unrestricted donations, by contrast, allow non-profit groups to judge where funds are most needed. That makes sense. The people working on the front lines are likely to have the better ideas on how to solve a problem.

No-strings giving may not be for everyone: there will always be donors who want to roll up their sleeves and get involved. But the new generation of donors shows that money can be spent both quickly and wisely. Philanthropy can be as simple as signing on the dotted line. ■



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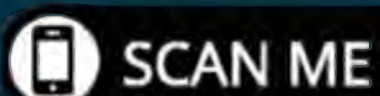


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Media matters

Your article about the rise of conservative media ("Right nation", December 16th) overlooked the impact of Ronald Reagan's dismantling of the fairness doctrine. Established in 1949 by the Federal Communications Commission, the doctrine required broadcasters to air contrasting viewpoints on controversial issues of public interest. However, the policy put the government in the awkward position of policing speech and thus contained an inherent conflict with the constitution's First Amendment. The FCC under Reagan used this argument of unconstitutionality to repeal the doctrine in 1987. Not long after, increasingly partisan conservative broadcasters, such as Rush Limbaugh, took hold of America's conservative dialogue.

HALSEY LEA

Silver Spring, Maryland

I want to express my highest gratitude to James Bennet and 1843 for the gripping essay on his experience at the *New York Times*, a rare piece worth each of its 17,000 words ("When the *New York Times* lost its way", December 14th). Reasonable people can disagree on his decision to run Tom Cotton's op-ed, coming as it did during a fraught time under a president who was expressing cheerful willingness to dispatch the army against his political opponents. But it was an eminently defensible decision, even laudable.

Yet I was struck by the statement that "most of the *Times* newsroom does not fact-check or copy-edit articles." Is fact-checking and copy-editing truly out of fashion in our most august newsrooms? Such a revelation causes me to shudder as much as anything else that Mr Bennet wrote.

MATT ODETTE

Long Beach, California

The one thing that everyone along the political spectrum can agree on is that there is media bias. The one thing no

one can agree on is who is biased and how much so. In 2012 the Al Smith dinner, a must for presidential candidates courting the Catholic vote, was attended by both Barack Obama and Mitt Romney. During his speech Mr Romney made the quip that "I've already seen early reports from tonight's dinner. Headline: Obama Embraced by Catholics. Romney Dines With Rich People". The quip got a great laugh because everyone saw the truth in it.

PAUL STUTLER

Apple Valley, Minnesota

Rationality and forecasting

Behavioural economics is not the study of "irrationality" ("A dismal year for the dismal science", December 23rd). It is the study of the behavioural underpinnings of economics. But so is the much longer-established discipline of economic psychology. To many of us working in the area, behavioural economics appears to be a recent rebranding of the study of some of the domains examined within economic psychology.

This rebranding has largely been carried out by those associated with the work of Richard Thaler, an economist influenced by the work of Daniel Kahneman, a psychologist who won a Nobel prize in economics. But even Mr Kahneman's work does not aim to study irrationality. It aims to identify the heuristics that people use when making judgments. In Herbert Simon's terms, the use of heuristics is procedurally rational because it allows optimal use of limited resources. Occasionally, their use may result in substantively irrational outcomes (biases) that illuminate the nature of the heuristics employed.

It can be difficult to define substantive rationality. To use your forecasting example, consider points randomly scattered around a linear trend line. To a statistician, it is rational to make forecasts on that trend line. To a forecaster, who knows that nothing continues on such a trajectory for

ever, it is rational to use this real-world knowledge to damp the trend when making forecasts. This is what people do when using judgment to make forecasts; they forecast below upward trend lines and above downward ones. What initially appears to be biased judgment, may not be.

NIGEL HARVEY

Professor of judgment and decision research
University College London

A city's spirit

I was moved by your article on the enduring resilience of London ("Invincible city", December 16th). I work in the Lloyd's insurance market, which has been trading for over 330 years. We persevered despite an almost fatal financial crash, brutal terrorism and the covid pandemic, but I am reminded of my father, George, who as a 17-year-old in 1944, started work at Lloyd's. It was the time of the second blitz on London from September 1944 to March 1945, when thousands of v1 flying bombs and supersonic v2 rockets hit the capital.

During regular air raids (and v1 attacks) the Lutine Bell at Lloyd's would be rung to alert everyone to the bomb shelter under the building, where the business of underwriting would continue. There were no warnings with the supersonic v2s. My father said it was a rather unnerving time, but that everyone just carried on working. To me that sums up Lloyd's of London and London as a city. We carry on regardless.

DAVID DOE

Oxted, Surrey

A bushy tale

This particular (very) retired colonel has no problem with the British Army allowing its soldiers to grow beards ("Of whiskers and weapons", December 23rd). Indeed, on several occasions I sported a full-set and see no reason why it should not be more widely adopted. The question arose because Grant Shapps, the

defence secretary, was asked what he intended to do about poor recruiting and poor retention of armed-forces personnel. His response, in effect "Let them grow beards", probably tells us all we need to know about him.

As for the issues underlying deficient retention and recruiting, we heard nothing. The ongoing scandal of poor accommodation rumbles on. The "strategic pay freeze" from 2010-13 has still not been rectified. And perhaps most insidious and worrying of all, and despite the world becoming more fractured and dangerous, defence spending at just over 2% of GDP shows that the armed forces are still regarded as little better than discretionary expenditure. There is no sense that, in order to match Russian military muscle we need our own *Zeitenwende* (Chancellor Olaf Scholz's recognition that Russia's attack on Ukraine represents a historic turning point), let alone to establish an adequate response to meet the challenges of China and a disordered Middle East and west Africa.

It is said that one of the functions of a beard is to hide a weak chin. Mr Shapps's newfound pogonophilia is no more than a diversion to hide a disastrously weak policy grip.

SIMON DIGGINS

Colonel (retired)

Rickmansworth, Hertfordshire

It's in the stars

The extremely wide range of forecasts from investment banks for inflation and growth in the coming year is puzzling ("Ask again later", November 25th). It reminds me of John Kenneth Galbraith's view: "The only function of economic forecasting is to make astrology look respectable."

ATILLA ILKSON

Saugerties, New York

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The car east

SHANGHAI

Western firms are quaking as China's electric-car industry speeds up

IT TAKES THE ET5, an electric saloon from NIO, a Chinese carmaker founded in 2014, a mere four seconds to accelerate from a standstill to 100kph. That is more or less the same as the Porsche Carrera, a German petrol-powered sportscar beloved by adrenaline junkies. Chinese electric vehicles (EVs) are setting new standards for speed—in terms both of how fast they go and of how fast they are spreading around the globe. Already China's streets are clogged with them. And if Chinese manufacturers have their way, America's and Europe's soon will be, too. An industry used to a sedate cycle of marginal improvements is being upended at "China speed", says Ralf Brandstätter, Volkswagen's boss in the country.

In 2023, Chinese industry groups claim, China overtook Japan to become the world's biggest exporter of cars, in part because of surging sales of EVs. In the final quarter of 2023, BYD, a Chinese firm, surpassed Tesla as the world's biggest manufacturer of purely battery-powered vehicles,

selling 526,000 of them to the American firm's 484,000. As the shift away from the internal-combustion engine (ICE) gathers pace, established carmakers are beginning to worry that Chinese upstarts might run them off the road.

The anxiety is well-founded. Western firms' expertise making ICEs counts for little in the electrical age. What is more, the Chinese government has hugely subsidised the EV industry. China dominates the manufacture of electric cars' most critical component, batteries. And China's vast domestic market allows local firms to benefit from economies of scale.

Chinese firms face some obstacles, too. For starters, many of the country's new EV startups are not yet profitable, despite the generous handouts. As their exports increase, the Chinese government may balk at subsidising Western consumers as lavishly as it has Chinese ones. Countervailing subsidies and other protectionist measures are on the rise around the world. And fears that Chinese-made cars might some-

how compromise the security of importing countries may also become an impediment to exports. All that notwithstanding, however, it seems all but certain that Chinese EVs will become a big presence on the world's roads, just as Japanese and South Korean cars did before them.

BYD shows what China can do. A tech firm that once specialised in batteries, it began making cars in 2003—at first with limited success. Although it managed to become the world's biggest manufacturer of electric buses, as recently as 2017 it sold only 420,000, mostly ICE, cars. Sales were falling. Last year, however, it sold 3m pure electric or plug-in hybrid vehicles—at a profit. It exports to over 70 countries and on December 22nd announced that it would build an EV factory in Hungary, to serve the European market from within.

Roadkill

Firms like BYD are frightening to foreign carmakers because China has the world's most developed market for EVs, and local brands dominate it. That is not because foreign carmakers have no presence in the country—far from it. Until recently, firms like Volkswagen and BMW were thriving in China. Since the 1990s they have made and sold lots of cars there through joint ventures with local firms. As these joint ventures grew, China became the world's biggest producer of cars in 2009. It also became the world's biggest market and the

► biggest source of profits for many Western brands. Volkswagen Group, for instance, sold 3.2m cars in China in 2023, around a third of its global sales.

In 2017 the government allowed Tesla to make cars in China without a local partner. It opened a factory in Shanghai in 2019. This was part of a concerted effort to promote the adoption of EVs, which have quickly become the fastest-growing element of China's car industry (see chart 1). In November some 42% of car sales in China were either pure battery or hybrids. That is well ahead of both the EU, at 25% or so, and America, at just 10%. What is more, although the pace is slowing, Chinese EV sales are still growing fast: by 28% in the third quarter of 2023 compared with a year earlier, according to the China Association of Automobile Manufacturers. Most forecasters reckon that by 2030 some 80-90% of cars sold in China will be EVs. And China is now by far the biggest car market in the world, with about 22m passenger vehicles sold in 2022, compared with less than 13m in both America and Europe.

That is why it alarms foreign carmakers that Chinese brands are pre-eminent in local EV sales. The Chinese market as a whole remains roughly evenly split between foreign and domestic brands (see chart 2). But for EVs, the ratio is more like 80:20, according to UBS, a Swiss bank. As a result, Volkswagen's market share in China has slumped, from nearly 20% in 2020 to 14% in 2023. Its share of EV sales is a puny 3%.

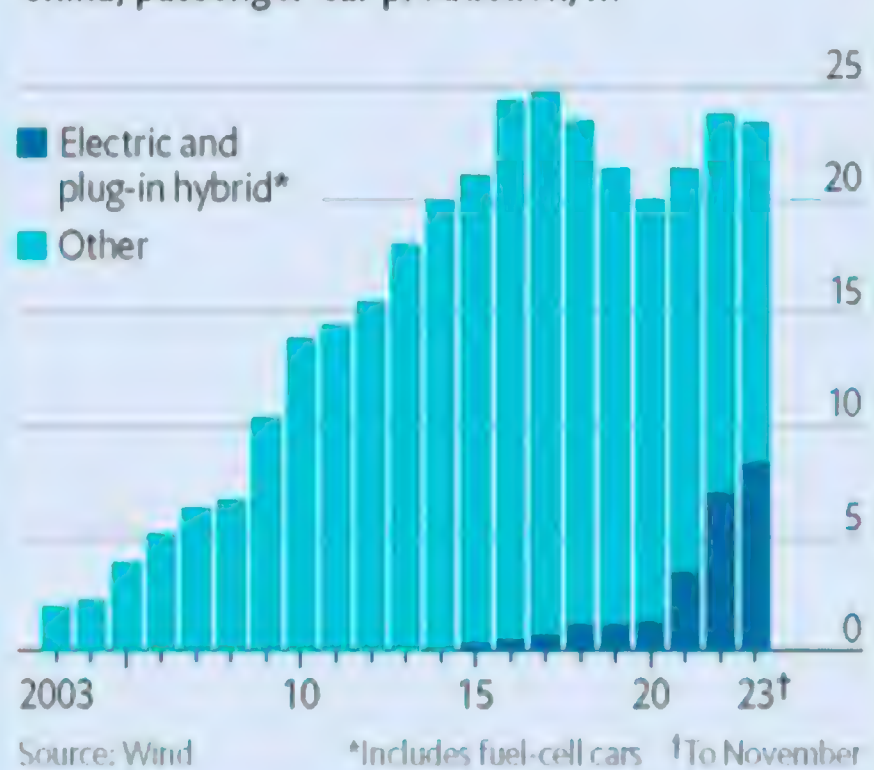
Chinese firms' advantage stems partly from subsidies for local firms. Government handouts for electric and hybrid vehicles added up to \$57bn in 2016-22, says AlixPartners, a consultancy. Rhodium Group, a research firm, estimates that between 2015 and 2020 BYD alone received \$4.3bn via cheap loans and equity.

Perhaps just as important was \$2.5bn in similar support for CATL, which in 2017 became the world's biggest manufacturer of the lithium-ion batteries used in most EVs. All told, China now makes 70% of the world's lithium-ion batteries. Purchase subsidies, which will be worth more than \$4,000 a car this year, have also helped the EV industry. Protectionism has played a part, too: only cars with domestically made batteries are eligible for the purchase subsidies, a rule which in effect shut out Japanese and South Korean competition.

All this has helped build a vast local supply chain, which now benefits from economies of scale. VW reckons it cuts manufacturing costs by at least 30% by sourcing locally. Chinese-made "infotainment" systems for its cars, for example, are 34% cheaper than older versions bought abroad, even though they have 70% more computing power, says Ludger Lührmann, chief technology officer at VW's new innovation centre in the city of Hefei.

Sparks and plugs

China, passenger-car production, m



Low costs mean low prices, which are also kept in check through furious competition. There are around 150 carmakers in China, including foreign brands, big state-owned companies and EV startups, all vying with one another for market share. Tesla recently initiated a price war, in an effort to sustain sales.

But Chinese EVs are not just cheap, they also enjoy superior technology in some respects. Analysts believe that one of the main ways that brands of EVs will differentiate themselves is by their software and styling. Here China has an edge, because its drivers are so much younger than Western buyers. They value sophisticated infotainment systems with first-rate sound and images. Research from Langston, a consultancy, suggests that they rank BYD and NIO higher on these measures than Western carmakers, even though they do not consider Chinese EVs safer, more reliable or more comfortable.

As Pedro Pacheco of Gartner, another consultancy, points out, Chinese firms are also managed differently. They are less risk averse and move faster than foreign firms, quickly updating tech and introducing new models to keep customers interested. Treating new cars like consumer-tech products, such as smartphones, extends to ditching duds quickly. Li Auto now ceases

production of new models in a matter of months if they do not sell well.

EV startups such as Li Auto, NIO and Xpeng were all founded by tech billionaires who, like Tesla's Elon Musk, regard their firms as tech companies that happen to make cars. In fact, lots of Chinese tech firms are getting involved in the car industry. Whereas Apple has mulled such a venture long and indecisively, Xiaomi, a big Chinese smartphone-maker, unveiled its first vehicle in December (a fancy and expensive saloon). It plans to make cheaper models in future with the immodest goal of becoming one of the world's top five carmakers in 15-20 years. Huawei, a telecoms firm, and Baidu, a search engine, have also teamed up with car firms to make vehicles.

Foreign carmakers, in contrast, are struggling to transform into Tesla-like software firms. They are used to the slower cycles of the ICE age. But firms that launch a new model every six or seven years cannot keep pace with buccaneering Chinese rivals, which move almost twice as fast. Foreign firms' habit of "localising" global models with small adaptations for specific markets also results in cars that are far behind Chinese customers' expectations.

Old bangers

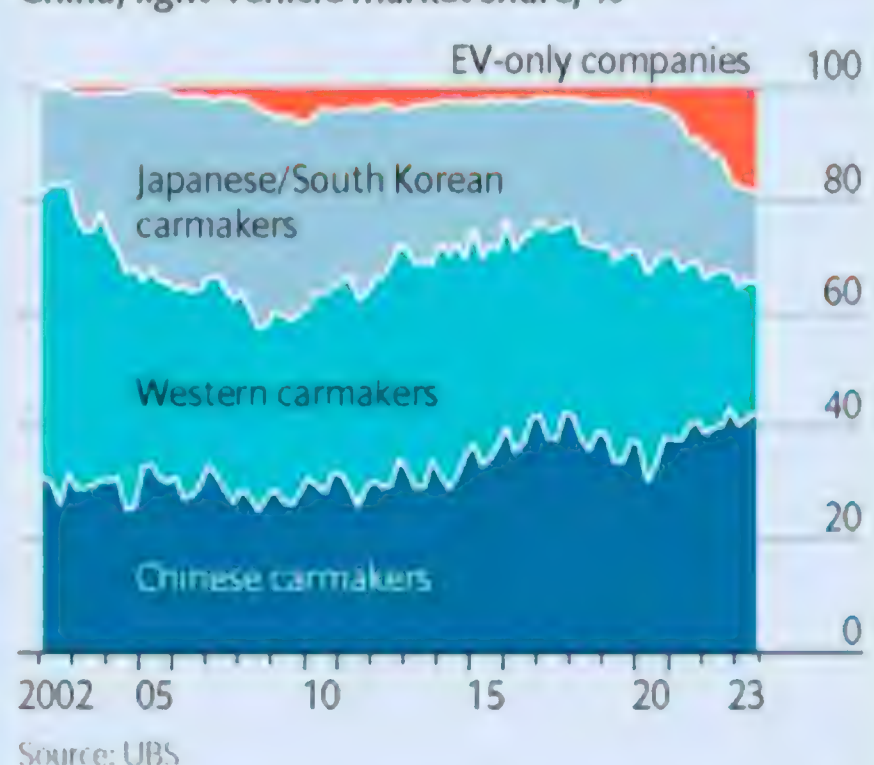
As a result, foreign brands are losing an allure that allowed them to charge double or triple what a Chinese firm might ask for an ICE car. Naturally, they are trying to adapt. Most have long had R&D outposts in China as well as other important locations such as Silicon Valley. VW's facility in Hefei is one of its main global innovation centres, in part to keep up with the tech demands of Chinese buyers.

Foreign firms are also forming new alliances with Chinese ones. VW agreed in July to acquire a 5% stake in Xpeng for \$700m. Together they plan to develop two new electric SUVs by 2026, which may help VW regain some of the ground it has lost. It has also struck deals with Horizon Robotics, a Chinese software firm, and Gotion, a Chinese battery-maker. Stellantis (whose largest shareholder owns a stake in *The Economist*) has had little presence in China since a joint venture to make Jeeps folded in 2022. But in October it signed a deal with Leapmotor to make and sell low-cost EVs outside China.

Such is the drubbing foreign firms are receiving at the cheaper end of the market that they may all depart in the next five years, reckons Michael Dunne of Dunne Insights, a consultancy. The fancier German brands, BMW and Mercedes, and Lexus, Toyota's upmarket arm, may hang on for longer. Dedicated new EV platforms, to replace ones shared with ICE models, will be introduced in the next few years, bringing better tech and lower costs. But some analysts see the market as a lost cause: Pat- ►►

Electric shock

China, light-vehicle market share, %



rick Hummel of UBS suggests that, instead of throwing money at China to regain market share, firms should just cash in while they still can.

This grim outlook is especially troubling because, although China's adoption of EVs has been rapid, the rest of the world is clearly headed in the same direction. The EU has banned sales of ICE cars from 2035. America is encouraging drivers to switch by offering lavish subsidies of its own. By 2035 EVs should account for perhaps 70% of global sales. That would amount to 60m-70m vehicles a year. Chinese firms are already looking to new markets.

Europe is likely to become the next battleground. Chinese firms' models, which are mostly small hatchbacks and SUVs, suit the continent's motorists. Tariffs of 10% are relatively low and the Chinese already have a foothold. Geely, a big Chinese carmaker, owns several European brands, including Volvo, Lotus and Polestar (an EV-only spin-off from Volvo). It hopes its European expertise will help it sell Chinese-made EVs from its Lynk&Co and Zeekr brands. MG, which belongs to SAIC, a state-owned carmaker, is Europe's best-selling pure-electric brand from China. Cars made by BYD, Great Wall Motors, NIO and Xpeng are on sale in a number of European countries. Other firms, such as HiPhi, are on the way.

So far the influx is small. Around 40% of Chinese exports in 2023, some 2.2m cars, will have been EVs reckons Canalys, a consultancy. Nonetheless, 9% of the purely battery-powered EVs sold in Europe in the first ten months of 2023 were made by Chinese firms, according to Schmidt Automotive, a data firm. Mass-market European firms such as Renault, Stellantis and VW are struggling to make smaller, cheaper EVs that can compete both with ICE equivalents and Chinese imports. VW's ID.3 and Tesla's Model 3 are both about 15% more expensive in Europe than BYD's Seal, a mid-sized saloon that is bigger and arguably better. In China the Seal costs less than half what it does in Europe but is still profitable. Even taking into account shipping costs and tariffs, BYD could cut prices in Europe and still make money. Thanks to such arithmetic, UBS thinks Chinese carmakers' market share in Europe could rise from 3% in 2022 to 20% in 2030.

Chinese carmakers will face obstacles on their advance into Europe. Most of their brands are unknown to European consumers. Winning customers away from firms with a loyal following, such as BMW and Mercedes, will be especially tricky. Establishing a retail network, either through direct sales or dealers, takes time and money. So does setting up after-sale servicing.

These expensive tasks will be especially onerous for the many Chinese EV startups that are losing money. Fast introduction of

new models has its downside. Costs have to be amortised over a much shorter period than is typical in the industry, says Mr Hummel. Bernstein, a broker, reckons that Li Auto might report a profit for 2023 but that NIO and Xpeng will lose money for the next few years. NIO has already had a state bail-out, is said to lose \$35,000 per sale and in November said it would lay off 10% of its employees. (Although in December it secured \$2.2bn from an investment fund from the United Arab Emirates.)

The consolidation of the industry that China's government has long desired looks inevitable. In the long run, however, that should create a clutch of stronger firms, better able to compete internationally. Mr Hummel thinks China will eventually end up with 10-12 firms making over 1m cars, some of which will go global.

Speedtraps

Chinese exporters may find that European governments put roadblocks in their way. In December France introduced a new subsidy scheme that favours cars made in Europe and Italy is considering doing the same. The European Commission initiated an investigation of state subsidies for Chinese car firms in October, which could lead to an increase in tariffs.

Yet these protectionist measures are unlikely to halt Chinese firms' advance. Higher tariffs are not "live or die", according to Lihong Qin, a co-founder of NIO. Europe's carmakers are not baying for them. China remains a big market for most of them, and they worry about retaliatory measures. Moreover, cars exported from European firms' factories in China would also be hit by higher tariffs. Even Stellantis, whose boss, Carlos Tavares, warns of a "terrible fight" with the Chinese and once loudly called for protection, is critical of

the probe. It may be worried about the implications for its tie-up with Leapmotor.

Higher tariffs may also prompt more Chinese firms to start making cars in Europe. BYD is said to be planning at least one more factory in Europe in addition to the one in Hungary. Japanese and South Korean car firms started to thrive abroad only after they localised production. This strategy, argues Bernstein, not only makes it easier to cater to local tastes, but also "brings local governments and local defenders on-board".

Even America's efforts to slam the door on China's car firms may not succeed. It levies tariffs of 27.5% on imported EVs and restricts purchase subsidies to vehicles that are made in America. But Chinese carmakers are making inroads in Mexico, a country with a free-trade agreement with America. Their market share has roared ahead, from 0.5% in 2016 to 20% today. NAFTA's rules-of-origin requirements prevent vehicles made in China from being re-exported to the United States duty-free. But there is nothing to stop Chinese firms from building factories in Mexico. Several of them, including BYD, Geely and SAIC are nosing around for locations. As long as the putative factories used enough locally made parts, their output would escape America's prohibitive tariffs.

Again, building factories and setting up supply chains takes time. It took Japanese and South Korean carmakers decades to establish themselves in America and Europe and win the trust of local consumers. Chinese firms appear to be making faster progress. But whether they arrive at "China speed" or simply very quickly, Chinese cars are on their way. The monitors that are often fitted to new cars to detect if a driver is nodding off should be pinging urgently in Western carmakers' boardrooms. ■



Coming soon to a street near you



Iowa caucuses

First dance, and maybe the last one too

SIOUX CITY

Donald Trump lost Iowa in 2016 and doesn't intend to do so again

KRISTI NOEM came to north-west Iowa to stump for Donald Trump on January 3rd, but the event doubled as a running-mate audition. "Worked with him when he was in the White House on tax cuts. Worked with him on policies, trade agreements," South Dakota's governor told the crowd. "Worked on foreign policy with him." Despite Mr Trump's absence, the event also featured many hallmarks of his rallies. Merch, including shirts with Mr Trump's mugshot, was for sale out front. The MAGA faithful filled the room, even on a freezing Wednesday night. And hundreds went home with foam koozies (cup-holders) reminding everyone that Mr Trump was a BACK TO BACK IOWA CHAMP.

The former president won the state comfortably in the 2016 and 2020 general elections. Yet his current popularity makes it easy to forget that his first electoral foray in Iowa did not go well: despite leading in surveys ahead of the 2016 caucuses, he had an anaemic on-the-ground operation and finished second behind a better-organised Republican, Ted Cruz. This year a more me-

thodical Trump operation is trying to project confidence but not complacency.

The quirky nature of the Iowa caucuses, scheduled for January 15th, makes organising more complicated. Rather than casting ballots at polls or by post, almost all voters must arrive on time and in person for caucuses, held in the evening at 1,657 distinct precincts. Speeches take place in support of candidates, and voters usually write their preference on a blank piece of paper. The campaign says it has trained 2,000 "caucus captains" to deliver speeches and recruit neighbours to attend the caucus and support Mr Trump.

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Polls show Mr Trump with around 50% of the vote in Iowa, 15 points short of his national lead, according to *The Economist's* poll tracker of the Republican primaries. Ron DeSantis, the governor of Florida, and Nikki Haley, a former governor of South Carolina, are fighting for second place but trail Mr Trump by more than 30 points in the Hawkeye State. Ann Selzer, the most prominent pollster in Iowa, describes Mr Trump's position as dominant "in every possible way you could define dominant".

Winning in Iowa does not have great predictive value for the general election: only three presidents of either party have triumphed in contested races in Iowa and gone on to win the White House that year. In all three competitive caucuses from 2008 to 2016, the Republican winner did not become the party's nominee (see chart on next page). "We're not supposed to pick presidents, and New Hampshire doesn't either. What we are supposed to do", says Jeff Kaufmann, the state Republican chairman, "is allow people to kick the tyres."

Beating expectations in Iowa would still be a boon for Mr DeSantis and Ms Haley, as both battle to become the main alternative to Mr Trump. The two went head to head on January 10th in the final pre-caucus debate, on CNN. All their rivals failed to reach CNN's threshold of mustering at least 10% in polls—except for Mr Trump, who as usual declined to take part. Mr DeSantis and Ms Haley spent most of the time attacking each other, rather than ►►

▶ Mr Trump. Hours beforehand Chris Christie, a former governor of New Jersey and the field's fiercest critic of Mr Trump, withdrew from the race.

Like Mr Trump, the remaining candidates are backed by elaborate turnout operations. Ms Haley is relying on Americans for Prosperity Action, a conservative Super PAC, to knock on thousands of doors on her behalf. The DeSantis campaign argues that its turnout operation, built as the candidate visited all 99 of Iowa's counties, is superior. Mr Trump has refined his database over multiple presidential runs.

Then there is the traditional advertising war: in 2023 Republican candidates and outside groups spent more than \$100m blanketing the airwaves of Iowa (population 3.2m). The top spender was a group supporting Ms Haley with \$25m in ads, followed by the nearly \$18m spent by an organisation backing Mr DeSantis. Nationwide, it has been an expensive and nasty primary. Mr DeSantis has faced more than \$44m in spending directed against him, more than double the \$21m that Mr Trump has dealt with. Ms Haley's opponents spent some \$19m attacking her.

Mr DeSantis still maintains the most robust schedule in the state. He attended four events on the same day as Ms Noem's visit, including at a crowded restaurant not far from the MAGA rally. Mr DeSantis developed a reputation as an awkward campaigner, but he has improved with time. "No one's hustled more in Iowa. No one's taken more questions from voters in Iowa," says a DeSantis campaign official. "He has connected with these people, and that's going to make a difference on January 15th."

The Floridian's closing argument: "Trump's running on his issues. Haley's running on her donors' issues. I'm running on your issues." Mr DeSantis brings up a topic—the border crisis, America's debt, China's rise, wokeism in college or the armed forces—and then makes the case for his own competence and Mr Trump's ineffectiveness. Want a border wall? Mr DeSantis promises to make it happen and get

Mexico to actually pay for it (with a tax on remittances, he claims).

Yet as Mr Trump's legal problems mounted in 2023, Mr DeSantis saw his polling decline nationally. Jon Mortenson, wearing a white-and-gold Trump caucus-captain hat at the Noem rally, says he didn't support Mr Trump at the 2016 caucus but now was all-in: "Every time they come after him, it makes me more determined to vote for him." On the campaign trail several voters, unprompted, brought up recent moves to disqualify Mr Trump from the ballot in two states.

"We're already seeing the rally-around-the-flag effect from the Democrats' overreach in Colorado and Maine," says Jason Miller, a senior adviser to Mr Trump. "Never discount the ability of Joe Biden and national Democrats to help galvanise the Re-

publican Party in support of President Trump." Some 187,000 Republicans went to Iowa caucuses in 2016, and turnout could exceed that number this year.

For all Mr Trump's polling leads, no one has voted yet. The former president will seek overwhelming victories in the early states to quickly consolidate the nomination and redirect his focus to the general election. Mr DeSantis and Ms Haley, for their part, want to come out of Iowa with momentum to sustain a long fight.

"Until you have the actual contest, and people actually go and cast their preference, you just don't know," says David Kochel, a longtime Republican strategist in the state. "Iowa and New Hampshire both have a tendency to surprise." But Mr Trump was surprised in Iowa once, and is resolved not to be again. ■

Chevron deference

Fed herring

NEW YORK

The Supreme Court is primed to recalibrate government power

TWO WEEKS before America's Supreme Court considers whether Donald Trump may constitutionally remain on the presidential ballot, it will tackle a question closely tied to Mr Trump's deregulatory plans for a second term. The power of some 436 federal agencies that do the bulk of the work of the federal government—from food safety to banking rules to pollution control—comes under the justices' scrutiny on January 17th.

Herring—a silvery fish of the North Atlantic that can be smoked, pickled or, when young, tinned—is the unlikely star of *Loper Bright Enterprises v Raimondo* and *Relentless v Department of Commerce*. Both cases involve herring fishermen upset with the National Marine Fisheries Service (NMFS), a federal agency charged with safeguarding America's ocean resources and habitat.

Drawing on a line in a statute giving the agency licence to make regulations that are "necessary and appropriate...to prevent overfishing and rebuild overfished stocks", in 2020 the NMFS required fishermen to bring an observer along with them on their boats—and to pay that person's per-diem fee themselves. Space on these vessels is a "scarce and precious resource", the fisheries' lawyer argues, making the NMFS's rule (which was suspended in April 2023) an "enormous imposition". Making the fishermen foot the bill "adds insult to injury".

The rule nevertheless found receptive audiences at two of America's appellate courts. In allowing the agency to impose



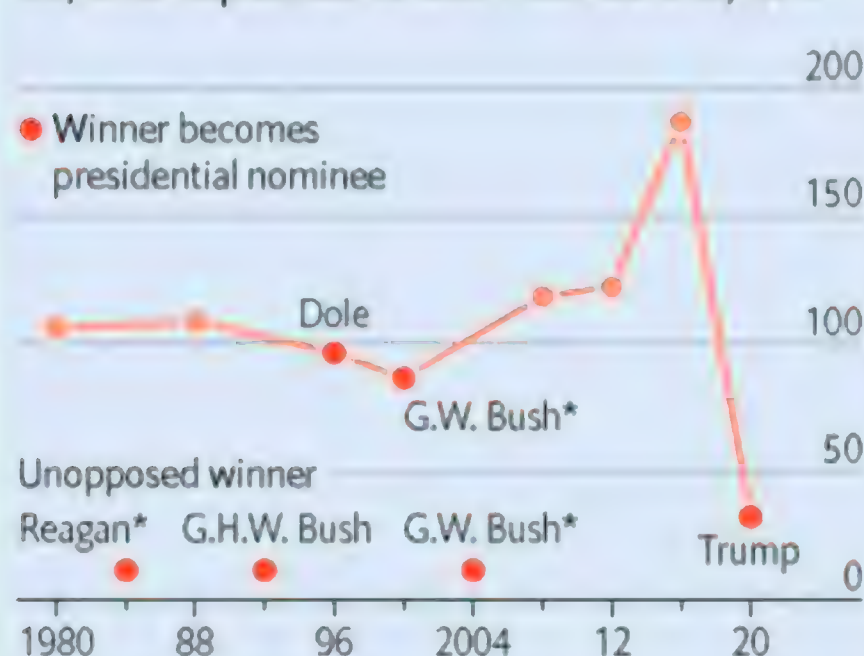
Good for canning?

the regulation, three-judge panels on both courts turned to a Supreme Court decision, *Chevron USA v Natural Resources Defence Council*, that has managed the inter-branch balance of power since 1984.

Chevron has two steps. First, judges determine if a law governing an administrative agency speaks clearly. If it does, judges interpret it themselves and tell the agencies what the law means. But if judges believe the law is ambiguous, they give bureaucrats the benefit of the doubt. At this second step, if the court sees the agency's interpretation as reasonable—even if it is

Ioways and byways

US, Iowa Republican caucus voter turnout, '000



*Wins presidential election

Sources: Des Moines Public Library; New York Times

not the interpretation the court thinks best—it defers to the agency. In *Loper Bright* and *Relentless*, the circuit courts concluded that the law in question is ambiguous and that the NMFS's interpretation of it is reasonable.

Chevron was popular among conservative justices in its early days. Five years after it was decided, Antonin Scalia (an arch-conservative justice who died in 2016) gave a lecture at Duke Law School in which he predicted that agency deference would endure as it “reflects the reality of government” and “serves its needs”. Yet two justices on the court today—Neil Gorsuch and Clarence Thomas—have made clear their deep disdain for what has become known as “*Chevron* deference”.

In a 2015 case involving the Environmental Protection Agency, Justice Thomas wrote that the wide berth *Chevron* afforded bureaucrats meant the court was “blithely giving the force of law” to “agency ‘interpretations’ of federal statutes” (note the scare quotes) and thereby straying “further and further from the constitution”. For Justice Gorsuch, who was railing against *Chevron* when he was still a judge on the 10th circuit court of appeals, agency deference is akin to “judicial abdication”.

The plaintiffs in *Loper Bright* and *Relentless* are banking on at least three more justices keen on reining in the administrative state. It may be a good bet. Brett Kavanaugh, two years before he became a justice, raised critical questions about *Chevron* in an article in the *Harvard Law Review*. The conservative majority has not invoked *Chevron* since 2016. The plaintiffs write that the doctrine has been “the-case-which-must-not-be-named” at the high court for years; the conservative court may see this as the moment to give *Chevron*, as Justice Gorsuch put it in 2022, “a tombstone no one can miss”.

Dozens of friend-of-the-court briefs urge the justices to do just that: bury-*Chevron* filings outnumber save-*Chevron* briefs by a ratio of four to one. But the implications of ditching the 40-year-old precedent are contested. For the plaintiffs, “*Chevron*’s primary victim is the citizenry” because the approach “literally gives the tie to their regulators in every close case”.

Not all regulations, though, are as hard to swallow as forcing fishermen to dole out up to a fifth of their profits to an on-board observer. Federal agencies, staffed by some 2.2m civil servants with expertise that judges often lack, protect workplace safety and respond to natural disasters. They keep aeroplanes and financial markets aloft. The government warns that abandoning *Chevron*—which lower courts continue to rely on even as the Supreme Court has quietly ignored it—would “threaten settled expectations in virtually every area of conduct regulated by federal law”. ■



Lloyd Austin

Hospital pass

Joe Biden's disappearing defence secretary

IT IS A busy time in the Pentagon. A vital aid package for Ukraine hangs in the political balance. The war in Gaza threatens to spread to Lebanon. America's navy has been blowing up hostile boats in the Red Sea. It was thus a particularly awkward time for the country's defence secretary to vanish for several days, unbeknown to Joe Biden, America's president, or much of the Pentagon itself.

Mr Austin, a burly and taciturn retired general who has been Mr Biden's defence secretary for three years, was admitted to hospital on December 22nd for an elective procedure to treat prostate cancer. After experiencing “severe” pain on January 1st, he was taken to an intensive-care unit (ICU) in Walter Reed hospital in Maryland, a military facility which treats American troops and presidents. For five days he was out of action, resuming work from his hospital bed only on the evening of January 5th. Mr Austin left the ICU on January 8th but is thought to remain at Walter Reed.

It is not unusual for cabinet secretaries to take medical leave. What is strange is the manner of Mr Austin's vanishing act. Neither his initial treatment nor his complications were publicly disclosed. More important, Mr Biden, the commander-in-chief, Jake Sullivan, the national security adviser, and others in the White House did not learn he was in hospital until three days later, on January 4th. Nor did Kathleen Hicks, Mr Austin's deputy, despite having been asked to assume some of his duties

on January 2nd on her holiday in Puerto Rico (without being told why, it seems).

General Charles “cq” Brown, the chairman of the joint chiefs of staff, who serves as the president's top military adviser, was informed on January 2nd—but apparently neglected to tell the White House. Congressional leaders, who oversee the Pentagon and control its budget, found out only on January 5th, the same day as army, navy and air-force chiefs who work under Mr Austin. Most of Mr Austin's staff in the Pentagon were also out of the loop.

The nature of Mr Austin's ailment and treatment was not made public until January 9th, when Walter Reed hospital published details. Mr Biden himself only learned the details earlier that morning. The hospital said that Mr Austin had never lost consciousness or been placed under general anaesthetic during his second stint in the facility, and that he was expected to make a full recovery.

The secretary of defence occupies a key role in America's government. The formal military chain of command runs from the president to the secretary of defence, and from there to various commanders who oversee a particular area. The secretary also wields some powers delegated by the president, such as handling air- and missile-defence threats to America which might need a prompt response. Mr Austin is not formally required for nuclear launches—Mr Biden has sole legal authority—but in most cases the president would

► consult the defence secretary, among others, in a secure conference call.

Mr Austin's stint in hospital coincides with a particularly tumultuous period. On January 3rd America joined 13 allies in releasing a joint statement that hinted at possible military action against Houthis in Yemen. A day later American forces in Iraq conducted an air strike against an Iran-backed militia leader there (though CNN reported that Mr Austin was "alert and tracking" it).

The Pentagon has scrambled to get its story straight. The department says that Kelly Magsamen, Mr Austin's chief of staff, was unable to notify Ms Hicks and Mr Sullivan until January 4th because Ms Magsamen herself was unwell. Yet American defence secretaries have armies of staff around them. Nor does this explain why Mr Austin is said to have told colleagues that he was working from home.

The unusual secrecy has provoked both bafflement and anger. The health of cabinet secretaries tends to be closely scrutinised. Mr Biden's colonoscopy in November 2021 was publicly disclosed. In June 2022 the Department of Justice gave advance warning that Merrick Garland, the attorney-general, would undergo a procedure on his prostate. Mr Austin's failure to inform the press was "an outrage", wrote the Pentagon Press Association, a group of journalists, in a letter to the department's press officials. "The public has a right to know when US cabinet members are hospitalised," it argued.

In a bipartisan statement, the Republican and Democratic leaders of the House Armed Services Committee said that Mr Austin needed to answer several questions as quickly as possible, including on the nature of his medical problem and the reason for the delayed notification. Two days later, on January 9th, the Republican-controlled committee launched a formal inquiry into the episode.

Mr Austin is an intensely private official, bordering on reclusive. In a statement on January 6th he offered a half-hearted apology. "I also understand the media concerns about transparency and I recognise I could have done a better job ensuring the public was appropriately informed," he said. "I commit to doing better."

The White House insists it has confidence in the defence secretary, who oversaw Mr Biden's botched withdrawal from Afghanistan in 2021 and has marshalled Western military aid to Ukraine in frequent meetings of around 50 defence ministers since April 2022. Mr Austin's position may grow shakier if more holes are poked in his story over the coming days—and if calls for his resignation grow louder. For now, the world's largest and most powerful armed forces are being overseen from a hospital bed in Bethesda. ■

The NRA on trial

On the Wayne

NEW YORK

A lawsuit in New York may shake up the National Rifle Association

"WAYNE'S WORLD" is how Monica Connell, a lawyer with the New York state attorney-general's office, described how the National Rifle Association, better known as the NRA, operated for decades. On January 8th, during the opening statement of the state's civil trial against the NRA, Wayne LaPierre, who has headed the gun-rights organisation since 1991, and two other former and current top executives, Ms Connell said, "this case is about corruption".

The lawsuit filed by Letitia James, New York's attorney-general, accuses the NRA's leadership of instituting a culture of mismanagement and negligence which benefited themselves, family, friends and certain vendors, and caused the organisation to lose more than \$63m, much of it donated by gun-owners. The state alleges that Mr LaPierre and the others used NRA money on luxury travel, including private jets, and did not declare expensive gifts, including African safaris and yacht trips. And, Ms Connell said, Mr LaPierre retaliated against anyone who questioned him. Oliver North, a former NRA president pushed out in 2019, is expected to testify.

Ms James first filed suit against the NRA in August 2020, seeking to dissolve it. The organisation is chartered by New York state, where it was founded in 1871, in the wake of the civil war. As it is registered as a charity in New York, it is under Ms James's jurisdiction and watchful eye. A judge

blocked her effort to disband the NRA, but said she should pursue other avenues as, if proven, her allegations tell "a grim story of greed, self-dealing, and lax financial oversight at the highest levels". The NRA unsuccessfully filed for bankruptcy in Texas. A judge there ruled that the organisation was solvent and had filed only to evade mismanagement allegations in New York.

The NRA, Mr LaPierre and the other plaintiffs deny any wrongdoing. Mr LaPierre's lawyer said his client took private jets because of death threats. As for the yacht excursions, well who wouldn't want to go on a yacht? The NRA, for its part, appeared to be distancing itself from Mr LaPierre. In her opening statement the group's lawyer praised him as a visionary, but also stressed that "The NRA is not Wayne LaPierre."

The association was founded to improve marksmanship and training, and later also promoted safety. But, in large part because of Mr LaPierre, it has morphed into a powerful lobby for gun rights. It spent millions to help Donald Trump get elected in 2016. But it has struggled with falling revenue, falling membership and in-fighting.

Mr LaPierre announced his resignation on January 5th, citing health reasons. How much this will change is unclear. The executives who remain are LaPierre loyalists. The interim head is his spokesperson and one of his closest advisers. But if the NRA loses the suit there is a good chance that the people who put the organisation into this position will be removed by a state overseer. Stephen Gutowski, the founder of the *Reload*, an independent publication focused on firearms policy and politics, points to the obvious irony: the lawsuit, which started out seeking to dismantle the NRA, may be "the best chance the NRA has for surviving". ■



Seeing red



Razzle-dazzle

Ya got trouble

TIMES SQUARE

Broadway is struggling to find its rhythm after the pandemic

TIMES SQUARE is a bit different these days. Although the ticket touts and Elmo impersonators still jostle tourists, something is missing: for the first time since the 1970s, there are no Andrew Lloyd Webber shows on Broadway. The musical-theatre titan's latest Broadway offering, "Bad Cinderella", flopped (much as the original production had done in London), closing after just 85 performances. And after 35 years, the chandelier fell on "The Phantom of the Opera" for the final time. Higher running costs after the pandemic took it to the point of no return.

The disappearance of a classic old show and a prominent new one is part of deeper troubles facing New York's theatre industry. The Great White Way has been struggling with rising costs and smaller audiences. Attendance numbers are down by 17% from before the pandemic (see chart), and box-office returns were down by 27% in real terms in 2022-23 compared with 2018-19 (theatre seasons start in the summer). The Broadway League, the industry's trade association, does not expect audiences to return to pre-pandemic levels until next year or even later.

The health of theatreland is something of a proxy for that of New York City more broadly. It is an indication of how many tourists and suburbanites have been drawn back into the razzle-dazzle—and how many are big spenders, willing to drop an average of \$160 on a ticket. Mr Times Square, a veteran midtown ticket-seller

who gives only his *nom de guerre*, looks crestfallen at the end of a recent Friday-evening shift. "It's just harder to get people to spend money," he says. "Broadway's not doing well at all."

Tourists have still not returned to New York City in pre-covid numbers and suburbanites come less often. Even New Yorkers fell out of the habit of going to the theatre, says Megan O'Keefe, a producer, and Broadway faces stiffer competition. "Television is really great right now—you can get great storytelling in a lot of places."

Producers' profitability has also been hit by rising costs. "Hadestown", which won eight Tony awards, had an initial investment of \$11.5m in 2019. Now, one of the producers reckons, it would need to be

closer to \$18m. As with many industries, shipping, materials and labour are all more expensive. And unlike film or TV, shows can stop spending only when they close.

Theatre has never been a reliable business. True, some shows defy gravity: "Wicked", a musical that recently celebrated its 20th anniversary on Broadway, has so far made \$1.6bn in ticket sales. But most do not recover their initial investment, let alone make a profit.

Before the pandemic about 20% of shows "recouped" their investment. "I don't know anyone who's looked" at the number of shows recouping now, says Oliver Roth, a Tony-winning producer. "I certainly haven't—mostly out of fear." Rather than resembling a bell-curve, with most shows being middling performers, the industry now looks more like a barbell: productions either thrive or flop. Only one production that started in 2023, "Prima Faccia", announced that it had recouped its costs by the end of the year, helped by being a one-woman show with Jodie Comer, who starred in the TV series "Killing Eve".

That is typical of successful productions. They either have familiar stars, like Ben Platt in "Parade", or familiar content, like "Back to the Future: The Musical". Less formulaic productions stand little chance. "The Inheritance", which opened on Broadway in 2019, was a two-part play telling the stories of generations of gay men in New York. A critical success, it won the Tony award for best play. "It was a risk that was worth contemplating then," says Lee Seymour, one of the show's producers. "There's no way that show would have even a hope of working now."

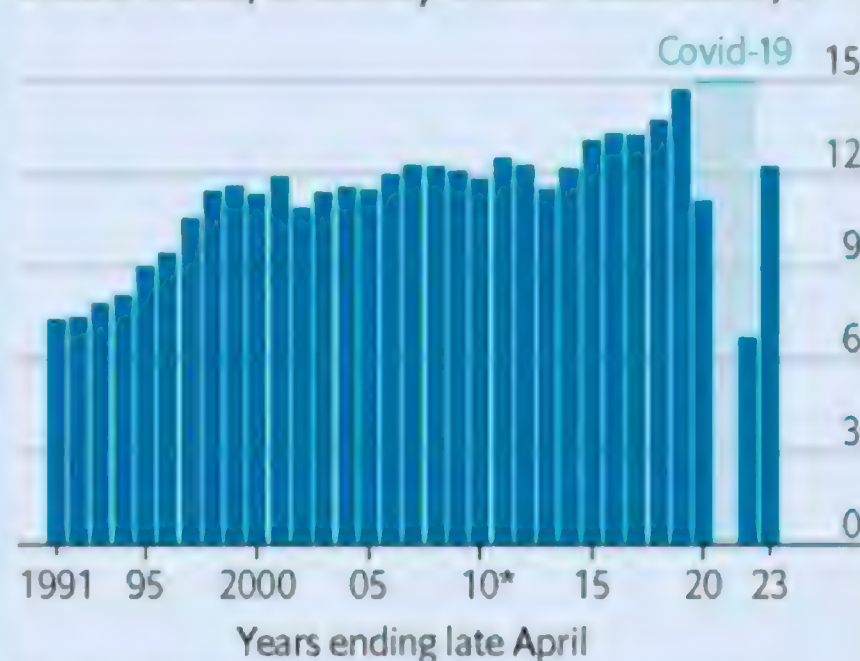
Come to the cabaret

A simple denouement may prove elusive. Many in the theatre world are looking for ways to cut costs, for example by sharing backstage resources. Others are hoping for an expansion of state and federal help, along the lines of a New York state tax credit that awards up to \$3m per show. The magical answer, of course, would be another smash hit like "Hamilton" or "The Book of Mormon". These shows attract new people to the theatre, some of whom catch the bug and stick around.

Many shows are trying to fill that role—with exclamation marks, in the case of "Gutenberg! The Musical!" (pictured). Despite the testing climate, a slate of new musicals are opening this spring. On Broadway, there's always the hope that something's coming, something good. ■

The show must go on

United States, Broadway-theatre attendance, m



*Series change from paid attendance to total attendance
Source: The Broadway League



To go behind the scenes on the business of Broadway, listen to our Money Talks podcast: economist.com/broadway-podcast

Lexington | Back to DeFuture

The lessons for future dream candidates of Ron DeSantis's campaign



GOD LOOKED down on his planned paradise and said, 'I need a caretaker'—so God gave us Trump." Thus intones the narrator of a video Donald Trump shared on his social-media platform, Truth Social, earlier this month. Amid the huffing and puffing, a mischievous, even puncturing note can also be heard: Mr Trump, as God's chosen agent, will not only "fight the Marxists" but also pause to "eat supper". After taming the "cantankerous" World Economic Forum, the gravelly voice deadpans, Mr Trump might "come home hungry" yet he will wait "until the First Lady is done with lunch with friends—then tell the ladies to be sure and come back real soon".

Mr Trump was aggrandising himself, but he was also once again making fun of poor beleaguered Governor Ron DeSantis of Florida, aka, to Mr Trump, "Ron DeSanctus", aka "DeSaster", aka "Tiny D". More than a year ago, Tiny D's—ahem, Mr DeSantis's—wife, Casey DeSantis, tweeted a video in which another thunderous male voice also described God looking down on "his planned paradise". In that instance, God chose to create "a fighter". Noble black-and-white images of Mr DeSantis illustrated baritone blather about defending what is "right and just", without the slightest hint of irony. Solemn as it was, Mr DeSantis's video was far sillier than the one Mr Trump celebrated.

But Mr DeSantis was riding high back then, before he challenged Mr Trump for the Republican nomination. Just days after that tweet, as Republicans across the country struggled in mid-term elections, Mr DeSantis was re-elected by 19 points. The *New York Post* proclaimed him "DeFuture": he had Mr Trump's policy aims but not his baggage, his forcefulness but not his fecklessness, his killer ways but not his loser record. He was a college athlete, a navy veteran, a former prosecutor and congressman as well as a serving governor. And he was just 44, with a media-savvy wife and three children. He looked like a winner. On paper.

Mr DeSantis may yet produce a surprise in the Iowa caucus on January 15th. His aides boast of their assiduous door-knocking. But polls show him struggling to cling to a distant second place behind Mr Trump. Mr DeSantis may never have had much chance of keeping his early mojo, particularly once Mr Trump's indictments rallied Republicans to the former president. Yet lessons can be

learned from his experience; not only by Mr DeSantis as his campaign moves ahead, but by future DeFutures and the donors who will be tempted to fall in love with them.

Mr DeSantis's first mistake was to alienate the aide who revived his first campaign for governor, Susie Wiles. He wound up pushing a formidable operative who knew his every weakness into Mr Trump's camp, where she is now a top adviser. Then he delayed entering the race for months, calculating that a productive state-legislative session would buttress his campaign but exposing himself to a classic Trumpist bombardment—from the left (for voting to cut entitlements), from the right (for wanting to raise taxes) and out of left field (for eating pudding with his fingers).

Mr DeSantis attempted an unconventional campaign launch on Twitter, but it proved a carnival of glitches that mocked his image of competence. Perhaps most damaging, he conducted another radical experiment by outsourcing key decisions to a Super PAC, Never Back Down, which he and his campaign could not legally control. It burned through tens of millions of dollars until, last month, it backed down, with officials resigning or being fired after anonymous finger-pointing over bad decisions.


The most basic political lesson of the DeSantis campaign, but the hardest to apply, is this: you can never tell. Recall, just since the 2016 campaign, such candidates as Rick Perry of Texas, Scott Walker of Wisconsin, John Kasich of Ohio, Jeb Bush of Florida, Chris Christie of New Jersey, and even Doug Burgum of North Dakota—they all looked good on paper, too. They were all accomplished serving or former Republican governors, a species of candidate with particular appeal to the mandarin class. In any era their candidacies may not have survived contact with national politics, but they certainly could not thrive in the Republican reality defined by Mr Trump's sulphurous tactics and charisma.

You also cannot tell in advance because some candidates learn quickly, and others do not. Mr DeSantis has improved as a candidate, but not as much as, say, Barack Obama had by this point. Having tried for too long to duck combat with Mr Trump, Mr DeSantis has honed his own criticisms. He shows a bit of interest, sometimes, beyond mechanically asking a voter's name. His voice has acquired inflection beyond the aggrieved whine that sliced through many of his debate appearances. His smile sometimes crinkles his eyes, rather than just exposing his clenched teeth.

Another Ron

But Mr DeSantis remains God's fighter, a belligerent candidate unlike the Republican governors of the past 50 years who did go on to win the nomination—Ronald Reagan, George W. Bush and Mitt Romney. Mr DeSantis's glower has made him a natural foil for Mr Trump. Compared with the politician of 2016, Mr Trump is himself a darker candidate. But he has delighted in playing the Road Runner to Mr DeSantis's flummoxed Coyote, Bugs Bunny to his plodding Elmer Fudd. "There's another version of Ron DeSantis where he really celebrates the American dream," says Stuart Stevens, a Republican consultant who advised Mr Romney and Mr Bush, among others. "He's a middle-class guy from Florida, went to Harvard, Yale: 'I represent what is possible in America, and I want to make it possible for everyone.' You would have liked that guy."

Mr Trump is now training his fire on a more adept politician, Nikki Haley. She was also a governor, of South Carolina. She has run a better campaign than Mr DeSantis and offered a sunnier contrast to Mr Trump. Yet even that alternative—any alternative—will probably not satisfy today's Republican Party, either. ■

 AFGHANISTAN



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Ecuador and its gangs

Into the maelstrom

The once safe Latin American country is now the continent's deadliest

ONE OF ECUADOR'S most-watched news programmes, *El Noticiero*, was broadcasting live when gunmen stormed the studio. Cameras rolled as hooded gangsters pistol-whipped staff to the floor. They then strutted on air for 15 minutes, flicking gang signs to stunned viewers and taking selfies while waving machetes, dynamite and machineguns.

This thuggery, beamed across the country on the afternoon of January 9th by a state-owned channel, TC Televisión, shocked Ecuadoreans as mayhem seized the country this week. It is the latest, most dramatic episode in Ecuador's four-year slide into the grip of drug gangs.

In 2019 it was one of the safest countries in Latin America, with a homicide rate of 6.7 per 100,000. Some Ecuadorean sources estimate the homicide rate in 2023 to have been more than six times that, some 45 per 100,000, making their country the deadliest in mainland Latin America.

The events were set in motion on Janu-

ary 7th, when guards at La Regional prison in Guayaquil, Ecuador's largest city, discovered that Adolfo Macías, boss of Los Choneros, a drug gang, was not in his cell. He had been serving a 34-year sentence for murder and drug-trafficking. Gang members in prisons across the country began rioting as news of his escape spread. Videos circulated on social media showing gangsters taking prison guards hostage and shooting them. Some guards were hanged.

The next day Daniel Noboa, Ecuador's president, declared a state of emergency that is set to last until early March, and imposed a nightly curfew. He sent the army in to take control of the prisons. Gangsters fought back on the streets of cities across the country, detonating bombs, burning

cars and kidnapping policemen. On the same day that hooded men stormed TC Televisión, another armed group raided Guayaquil University, taking students hostage and exchanging fire with the police. Mr Noboa then declared an "internal armed conflict" and ordered the army to "neutralise" some 22 organised crime groups, including Los Choneros. As *The Economist* went to press, armoured cars and soldiers roamed Ecuador's streets. The gunmen who stormed the TV station had been arrested, but at least ten people had already been killed.

The roots of this violence start in Colombia. Ecuador, particularly its port at Guayaquil, became a more important hub for the shipment of cocaine from Peru and Colombia after Colombian ports tightened their security in 2009. Trade had previously been monopolised by the FARC, a powerful Colombian guerrilla group, which kept violence to a minimum. But after the FARC signed a peace deal in 2016, most of its members were demobilised. Local, regional and international gangs poured in to fill the vacuum. Mexican gangs funded Ecuadorean ones. The Albanian mafia expanded its presence in Ecuador. A rapid influx of international organised crime was facilitated by Ecuador's dollarised economy and by lax visa requirements for foreigners.

Small-time Ecuadorean gangsters like Mr Macías have become kingpins. Los Cho- ➤

→ Also in this section

25 Panama has canal woes too

26 Hopeful Guatemala

neros and other local gangs are thought to have armed themselves with weapons obtained from their Mexican patrons in exchange for cocaine shipments. They now possess machineguns, rifles and grenades that enable them to take on Ecuador's poorly trained armed forces.

Ecuadorean gangs have generated cash-flow by establishing a lucrative foothold in Europe, where cocaine consumption is growing. The busiest cocaine-trafficking route in the world today runs from Guayaquil to the port of Antwerp in Belgium, according to Chris Dalby of World of Crime, an investigative outfit based in the Netherlands. Much of this cocaine is packed into shipping containers containing bananas, one of Ecuador's biggest exports. Europe's demand "has turned Ecuadorean ports into one of the most valuable pieces of infrastructure you can control, if you are a drug-trafficking group in Latin America," says Will Freeman of the Council on Foreign Relations in New York.

Bought and paid for

That cash lets gangs buy off prison guards. Mr Macías and other gang leaders have turned perhaps a quarter of Ecuador's 36 prisons into their headquarters, from which they organise attacks and recruit new members. Mr Macías escaped just before he was due to be transferred to a more secure unit in the prison complex. He must have been tipped off by corrupt officials.

Corruption of that sort is rife. In 2023 police began investigating several government officials for links with the Albanian mafia. Months later the main suspect was found dead. In 2022 25 air-force officials were punished for sabotaging radar equipment that was monitoring the activity of drug gangs in Ecuadorean air space.

Anyone who stands up to the drug gangs and their corrupt networks is at risk. Last August Fernando Villavicencio, a presidential candidate and former investigative journalist, was assassinated 11 days before the election after he threatened to take down the gangs. On January 5th Fabricio Colón Pico, a leader of Los Lobos, a rival gang to Los Choneros, was arrested allegedly for plotting to kill Diana Salazar, Ecuador's attorney-general. She had been investigating links between drug traffickers and civil servants. In December she ordered the arrest of 31 people, including judges, prosecutors and policemen. Mr Colón Pico managed to escape from jail just four days after his arrest.

After campaigning on less controversial issues, Mr Noboa, who took office in November, has taken an iron fist to the gangs. He has announced that two new maximum-security prisons will be built; declared gangs to be terrorist organisations; and warned that officials who collaborate with them will be brought to jus-

tice. Like his predecessor, he is sending the army onto the streets and into the prisons. And he has called for a referendum in coming weeks that would legalise extradition and enable the assets of suspected criminals to be seized.

Some of these tactics appear to copy those of Nayib Bukele, the president of El Salvador, who has put some 2% of the adult population behind bars and become one of Latin America's most popular presidents. Yet the challenges faced by the two leaders are different. The Ecuadorean gangs are far more sophisticated than those in El Salvador. And Mr Noboa, who must seek re-election in 18 months, is far weaker than Mr Bukele. Despite Mr Bukele's success so far, the strongman approach to Latin American drug gangs has usually failed.

Mr Noboa must make a cleverer plan. He should urge his officials to share data with counterparts elsewhere in the region, which does not happen at the moment, says Mr Dalby. He should set up a register of guns, rebuild the country's feeble anti-narcotics units and strengthen co-operation with the United States, which has offered to help. And he must bolster the state's presence along the border with Colombia and in Guayaquil. Without all this, going to war with Ecuador's newly empowered gangs is likely to prove futile. ■

Shipping

Dire straits

The dwindling of the Panama Canal may boost rival trade routes

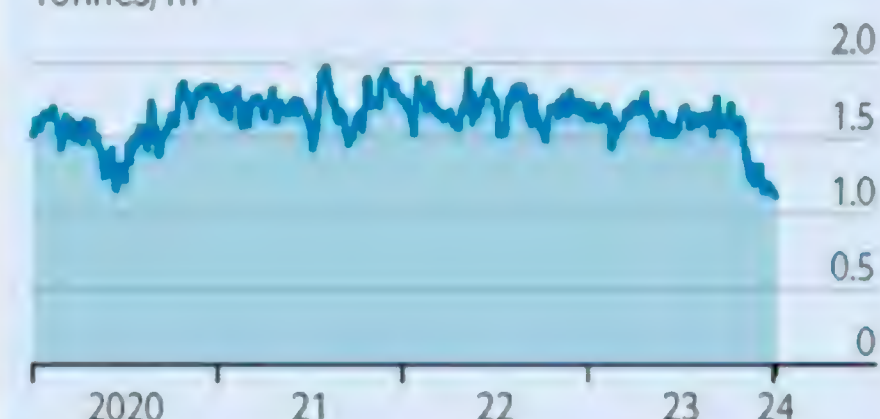
IT HAS BEEN an unhappy new year in the world's busiest shipping lanes. Houthi rebels began attacking vessels passing into the Red Sea through the Bab al-Mandab Strait in early December. Trade volumes through the Suez Canal dropped by 40% as ships diverted around southern Africa. Trade through the Panama Canal, the second-busiest man-made shipping lane, has also dipped by 30% since November.

But while the Suez's problems are geopolitical, those in Panama are climatic. The lakes that feed the canal are drying up, thanks to annual droughts that may be worsening as the climate warms. The series of locks connecting the Atlantic Ocean to the Pacific via Gatun Lake are close to the point of being too shallow to let the largest container ships through.

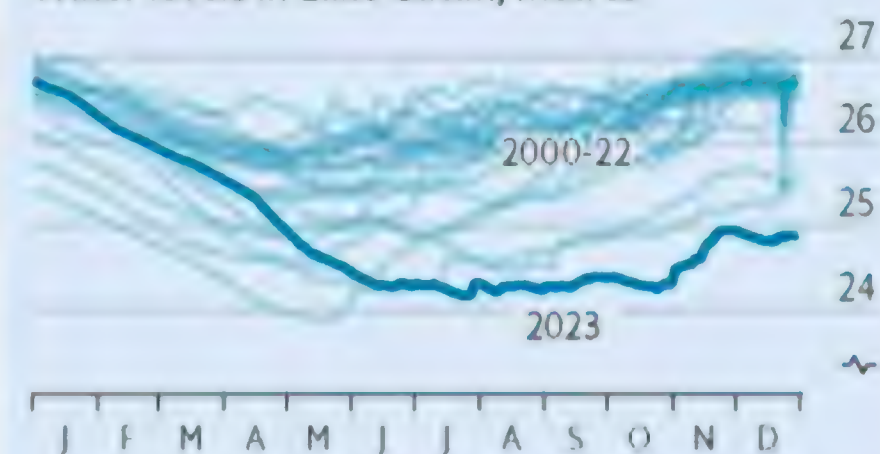
Other Latin American governments spy opportunity. In normal times the canal carries about 5% of global maritime trade. And it is lucrative, generating \$2.5bn for the Panamanian treasury in the 2022-23 finan-

Lower levels

Panama Canal, daily volume of transit trade*
Tonnes, m



Water levels in Lake Gatun, metres



Sources: IMI PortWatch;
Panama Canal Authority

*Seven-day moving average

cial year, about 3% of GDP. Politicians in several other countries with both Pacific and Atlantic coastlines are either building or mulling infrastructure projects that might lure traffic and revenue away from Panama. The most viable alternatives are by land, with containers unloaded from ships onto trains or lorries at one port and carried cross-country before being reloaded onto a ship on the other side.

Mexico's Interoceanic Corridor (CIIT) is the closest to completion. It has been discussed for decades but is finally being built as part of President Andrés Manuel López Obrador's infrastructure plan. Its main challenge is to modernise a 300km railway that runs across southern Mexico, from the Pacific to the Atlantic coast. The ports at either end—Coatzacoalcas and Salina Cruz—are being revamped. Most of the railway has been built; passenger services have begun. Work on the ports has not been finished, delaying the start of coast-to-coast freight travel. Mexico's government plans to launch the CIIT's second and third rail lines later this year.

Other competition against Panama is more of a dream. Colombia's president, Gustavo Petro, wants to run a railway through the northern province of Chocó, connecting the Pacific port of Buenaventura to the Caribbean. The country's National Infrastructure Agency is working on the scheme, but there is scant detail beyond a map with a line connecting both coasts, posted on the president's X (formerly Twitter) account. On the Caribbean side it is unclear at which port the railway will end.

The other big projects are roads. The Capricorn Bioceanic Corridor is a dual-carriage highway through Bolivia, Brazil, Argentina, Paraguay and Chile, roughly on

▶ the Tropic of Capricorn. Though at 2,250km it is too long to compete directly with the Panama Canal for global shipping, it may be a useful alternative for Latin American trade with Asia. The corridor is already partly built, thanks to multilateral funds. Sergio Díaz-Granados, the head of CAF, a regional development bank, is confident it will be completed, calling it one of today's greatest opportunities for trade and services in Latin America.

Several maritime alternatives to the Panama Canal have also been mooted. They are more speculative than land routes. Nicaragua wants to build its own canal, despite huge costs and complexity; an earlier attempt backed by a Hong Kong construction firm failed. The same warming climate that is making the Panama Canal less viable is also melting ice in the Canadian Arctic. So the Northwest Passage—a sea route skirting Canada's Arctic coast—might become viable.

Land-based alternatives may be more realistic. They are cheaper, less risky and easier to finance. But projects like CIIT may still struggle to entice cargo away from the Panama Canal. The largest vessels that go through it can carry 14,000 containers. Mexico's government accurately reckons that the coast-to-coast rail journey will be quicker than passing through the canal. But it neglects to mention that the trains' capacity and the speed at which they can be loaded and unloaded mean that the overall rate of goods' transit between the two oceans will be much slower than the canal.

Moreover, Niels Rasmussen, chief shipping analyst at Bimco, an industry association, says that carrying cargo by train or road has big snags. Most shippers would prefer to rack up extra miles on other maritime routes than to deal with the hassle of unloading and reloading. And if push comes to shove, many would probably prefer existing routes across the United States to untested road alternatives in Latin America.

That does not mean that ideas for new routes should be ignored. The Capricorn Bioceanic Corridor will bring a much-needed upgrade to South America's road networks and should spur exports, especially intra-regional trade, which is often pitifully thin. Mexico's plans may also gain a boost from nearshoring, as it is well placed to take advantage of efforts to shorten supply chains and move them away from China.

As for global trade, new land routes may end up complementing rather than competing with the Panama Canal. Circumstances may occasionally clog up the Suez and Panama Canals, as tension rises in the Middle East and drought worsens in Panama. In this "perfect storm", says Mr Rasmussen, imperfect alternative land routes would be a lot better than nothing at all. ■

Central America

Shiny new model?

GUATEMALA CITY

Guatemala's new president has good intentions. But he faces an uphill task

CENTRAL AMERICA is a laboratory for systems of government, few of them good. The likes of Costa Rica and Panama have real if messy democracies. Nicaragua suffers under Daniel Ortega, a dictator, and El Salvador is becoming more autocratic under a populist strongman, Nayib Bukele. Honduras and Guatemala have been deeply corrupt. Hence the enthusiasm for Bernardo Arévalo, a bona fide democrat, who is to be sworn in as Guatemala's president on January 14th.

A 65-year-old former academic and ambassador to Spain, Mr Arévalo pledges to restore democracy, which has long been ailing in Central America's most populous country. Mr Arévalo and his party, Semilla, have made a range of promises that broadly fall into two baskets: cleaning up the state to make it more democratic and inclusive; and improving services, such as education, health care and infrastructure.

Many pundits hope that Guatemala can set a new trend, in contrast to the likes of Mr Bukele, who is easily Latin America's most popular politician and role model. Mr Arévalo has had an outpouring of support, both at home and abroad. Civil society, led by the country's large indigenous population, took to the streets in the face of attempts by a political, military and judicial cabal known as "the pact of the corrupt" to stop Mr Arévalo from taking office.

To prove himself Mr Arévalo will need to "go beyond good intentions", says Edgar Gutiérrez, a former foreign minister. "Our

objective is to make the democratic model sufficiently attractive," says Samuel Pérez, a Semilla lawmaker. "That means results to improve people's lives." But within his party some disagree over how much to compromise its ideals to get things done.

Mr Arévalo will have to be pragmatic. Semilla won only 23 of 160 seats in Congress and will eschew corrupt practices of the past, such as handing lucrative contracts to its supporters. Álvaro Arzú, an opposition congressman, says there is room for negotiation to pass laws, for instance on health services. But many lawmakers will refuse to co-operate.

Things in Guatemala are so dire that even small changes should make a difference. "Think filling in potholes rather than building a double-decker road," suggests Edgar Ortiz of the Liberty and Development Foundation, a local think-tank. Alejandro Giammattei, the departing president, has strengthened presidential power, so Mr Arévalo can lean on executive fiat. He may need to be showy. Mr Pérez points to the popularity of a new library in El Salvador—paid for by China. Such things get noticed.

Mr Arévalo is unlikely to match Mr Bukele's popularity. His win in Guatemala was "a glitch in the matrix", says Mr Ortiz. He was lucky in the second-round vote to run against a candidate who had failed in three previous bids. The United States' support may be limited to anti-corruption. Mobilising the street will be harder once in office. "We are not 100% behind Arévalo," says Luis Pacheco, an indigenous leader. "The idea was to defend our democracy and elections." Lester Ramírez, a Honduran researcher, says: "Guatemala's democratic resilience is impressive. But there's a social fatigue after the vote." He reckons that people see election day as the moment to embrace democracy. But afterwards they just want results, however achieved, and thus often prefer a strongman. ■



Arévalo needs clever handiwork



The Belt and Road in South-East Asia

Better Renegotiate It

JAKARTA AND PUTRAJAYA

China's big infrastructure play is having some underappreciated effects in Asia

A DECADE AGO Xi Jinping, China's leader, declared his intention to make a world-girdling web of infrastructure China's gift to the planet. From the start, South-East Asia was to serve as a—perhaps the—main focus of what came to be called the Belt and Road Initiative (BRI). The region of 690m people was China's backyard. South-East Asia needed trillions of dollars of infrastructure and other development. China-centred supply chains increasingly ran through the ten-country Association of Southeast Asian Nations (ASEAN). Some 60m-70m ethnic-Chinese citizens of South-East Asia, many of them successful businessmen, could help China's mission.

Ten years on, there is no missing the wave of Chinese money that has broken over the region, bringing giant earth-moving machines, Chinese construction crews, Chinese business folk and diplomats, and not a few criminal chancers. Many BRI projects have gone well, bringing roads, railway tracks and power plants. In Cambodia, a new Phnom Penh-Sihanoukville expressway has cut the journey from the capital to

the south coast from five hours to two.

But others have provided poor returns. And a few have been grossly wasteful or environmentally damaging—or spread corruption among local elites, and even opportunities for Chinese criminal gangs. Malaysia, for example, has almost nothing to show for around \$1.8bn it gave Chinese firms to build two pipelines in its state of Sabah; the project has been shelved.

As the BRI wave recedes around the world, stories such as that can be found in many regions. Yet Chinese commitments in South-East Asia remain substantial, possibly amounting to more than \$20bn last year. This leads to some striking conclusions, at least as far as the BRI's critics in

the West are concerned.

First, though Mr Xi may have hoped Belt and Road would be a strategic means to further China's influence in South-East Asia, no grand plan is apparent. Rather, Chinese state-owned firms suffering from overcapacity at home often rushed to make money in the region, with diverse results. Second, South-East Asian countries have not only grown more cautious over their commercial dealings with China, but also—at least in the case of larger countries—more confident. Third, far from spurning fresh Chinese approaches, as some in the West hoped they would, many ASEAN members continue to welcome them. Yet they increasingly do so on terms more obviously beneficial to their own economies. They are also encouraging different sorts of Chinese investment. Infrastructure deals are flagging. Chinese investment in technology, renewable energy and electric vehicles is increasing.

Measuring the extent of Belt and Road in South-East Asia is hard. At the height of Belt and Road frenzy, from 2015 to 2017, backers of almost any project with Chinese involvement labelled it BRI. Many were not centrally directed out of Beijing. Ong Kian Ming, a Malaysian former deputy minister, says a Chinese investment vehicle approached him in 2018, promising to fund any infrastructure project, so long as the contractor came from the firm's province in China. "Diplomacy is an inaccurate way of looking at this...Nor was it premised on

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▶ strong financial principles.”

Many of the projects announced never broke ground. Even so, China has lavished tens of billions of dollars in financial support, economic assistance and concessionary lending on South-East Asia in the past decade, with Indonesia getting the biggest share. On top of that come infrastructure and other investments on commercial terms—including most of the flagship BRI projects blessed by China's central government. According to Maybank, a Malaysian bank, investment from China to South-East Asian commercial projects averaged \$27.9bn a year between 2015 and 2019. It fell to less than \$1bn in 2021, before recovering to \$18.6bn in 2022. That post-pandemic recovery in ASEAN contrasts with a continued slump in BRI investment elsewhere.

Within ASEAN, the record is mixed. Cambodia and impoverished Laos, small countries beholden to China, have embraced BRI most unquestioningly. Vietnam, long wary of its giant neighbour, has largely avoided it, preferring engagement through trade. In Indonesia President Joko Widodo, known as Jokowi, has used BRI to promote his own economic agenda, including a high-speed railway from Jakarta, the capital, to Bandung, and building a nickel-processing industry from scratch. The Philippines and Malaysia have had troubled engagements with BRI.

Though the previous Philippine president, Rodrigo Duterte, welcomed BRI investments, they have done little for the country's development, and brought in their wake a large illegal online-gambling industry dominated by Chinese expatriates. The current president, Ferdinand “Bongbong” Marcos, has cancelled three BRI infrastructure projects and signed no new ones. As for Malaysia, its engagement with Belt and Road went awry when Chinese state banks and construction firms helped the corrupt then prime minister, Najib Razak, cover up his bilking of a Malaysian state investment vehicle, 1MDB, for which he is now jailed.

Despite these intra-ASEAN differences, broad conclusions can be drawn, contradicting both the Belt and Road's biggest boosters and its detractors. Certainly, the bigger the project, the bigger the risks. To political leaders, the advantage of BRI is no-strings investment and speed: quick access to Chinese finance, know-how and construction gangs. But large-scale projects require scrupulous management and risk analysis—which BRI does not come with. Jokowi's high-speed train, cleverly branded as the Whoosh and opened late last year, was a pet presidential project that did not even feature in Indonesia's transport master plan. Little was done in the way of impact assessments. At \$7.3bn, the train ran wildly over budget. It will never pay for itself. In Cambodia and Laos, Chi-

na-backed hydropower dams on the Mekong river are damaging a unique biome and imperilling the livelihoods of millions of fishers and farmers.

Yet just as BRI projects reflect the agenda of local elites more than Chinese priorities, so BRI recipients retain leverage over China when projects hit the buffers. Take Malaysia's East Coast Railway Line (ECRL), connecting its western ports with the relatively undeveloped east coast. Its initial cost, allegedly, was grossly inflated so that millions of dollars could be siphoned off to plug gaps in Mr Najib's 1MDB. After his fall, says Malaysia's transport minister, Anthony Loke, Malaysia successfully demanded that Chinese counterparts cut the project's price by 30%, raise the involvement of Malaysian firms and share the risk by jointly running the ECRL once in operation.

Bridges to batteries

With the possible exception of Laos, which has loans to Chinese entities equivalent to 65% of GDP, talk of China pursuing “debt-trap diplomacy” in South-East Asia is exaggerated. Indeed, Chinese companies and banks are often pressed to renegotiate existing deals on less favourable terms. China has meanwhile quietly acknowledged that having too many dodgy projects has harmed its reputation. Even the term “Belt and Road” is now omitted from the signage of many Chinese-backed schemes.

A decade's experience of Belt and Road has made South-East Asian countries wary of criticising China in public. Neither can they easily criticise or cancel signature

projects without incurring its wrath, including in the form of economic sanctions. As Tony Pua, a Malaysian former politician who served in the finance ministry, puts it: “We cannot go out there and condemn China, because there'll quickly be no more Chinese tourists coming to Malaysia. We'll be screwed not just economically. We'll be screwed with our own ethnic-Chinese voters who are partial to China.”

Yet South-East Asian countries increasingly do say no to deals they don't like. They also seek investments that better reflect new priorities, such as climbing up the manufacturing value chain. Take Malaysia. Its government invited a Chinese carmaker, Geely, to turn around a struggling national carmaker, Proton, which recently agreed to a \$10bn investment. It lured Huawei, China's telecoms giant, to launch regional operations in the country. Chinese steel firms are setting up at industrial parks jointly managed by Malaysian and Chinese entities. Malaysia wants more Chinese investment in everything from e-commerce to renewable energy. Its ambition, says Yeah Kim Leng, an economist, is to be ASEAN's main production hub.

Other ASEAN members have similar hopes for Chinese involvement—including Indonesia in EVs and Thailand in renewable energy. Investments in such areas may not be labelled BRI. Still, a decade's experience of it has not dimmed ASEAN's appetite for co-operation with China. Contrary to what many China hawks maintain, the legacy of Belt and Road in South-East Asia looks to be deep and enduring. ■

Women's (in)justice in India

After Bilkis Bano was raped during riots in Gujarat in 2002, it took India's legal system six years to convict the Muslim woman's assailants. Fourteen years into their life sentences, they were released by order of the state's Hindu nationalist government. On January 8th the Supreme Court deemed that remission illegal. Indian justice is indeed tilted against women to an appalling degree—as a new

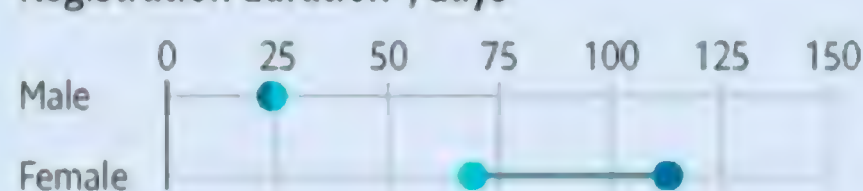
study illustrates. By tracking 418,190 police complaints in Haryana, a northern state, between 2015 and 2018, it shows that complaints from women were likelier to be delayed and dismissed by the police than complaints from men. The disparities extend to the courts, where female-filed cases go most slowly. Defendants are less likely to be convicted when accused by a woman than a man.

Thumb on the scales

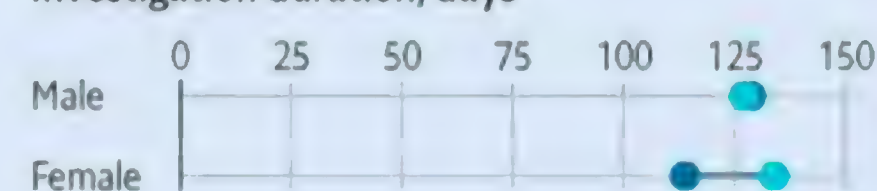
Haryana, India, justice outcomes*, by gender of complainant

Cases: ● Violence against women ● Other

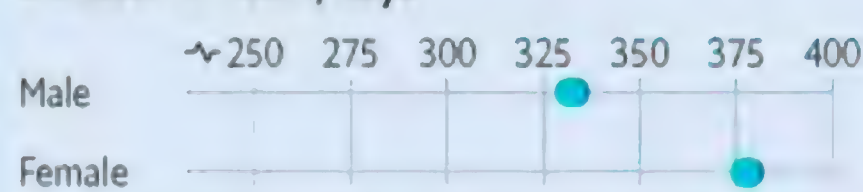
Registration duration†, days



Investigation duration, days



Duration in court, days



Conviction rate, %



Source: “Does victim gender matter for justice delivery? Police and judicial responses to women's cases in India”, by N. Jassal, *American Political Science Review*, 2023

*418,190 police files from Jan 2015–Nov 2018
†Days between police filing and incident

South Asian geopolitics

Beach bummer

DELHI

A spat between India and the Maldives highlights deeper tensions

IN INDIA AS elsewhere, many fantasise about escaping to the beach in early January. Yet recent days have seen an unusual public debate about which beaches are acceptable and which, more to the point, are not. Politicians and Bollywood stars are richly praising India's own island and coastal resorts. They are meanwhile urging people not to travel across the Indian Ocean to a traditionally hankered-after alternative: the Maldives. Some travel agents have stopped taking bookings to the archipelagic South Asian state.

What is afoot? Earlier this month Narendra Modi, India's prime minister, paid a visit to the union territory of Lakshadweep, a tropical archipelago off the coast of the southern state of Kerala. Mr Modi praised the islands' tourism potential and was pictured snorkelling against a backdrop of pristine—distinctly Maldives-like—white sands. This prompted three junior Maldivian ministers to take to social media with snarky comments about India's supposedly inferior beaches and its prime minister. That angered Indian social-media users, who rallied to Lakshadweep's and Mr Modi's defence, and India's government, which summoned the Maldives' envoy in Delhi for a ticking-off.

Besides highlighting the nationalist mood in India, the saga points to a growing strain in the long and historically close relationship between India and the Maldives, which is home to 400,000 people. It is symptomatic of the wider difficulties India faces in managing its neighbourhood as China's influence in South Asia grows.

India and the Maldives have a long history of co-operation on economic, defence and security issues, having established diplomatic relations after the Maldives gained its independence from Britain in 1965. Nearly 210,000 Indian visitors entered the Maldives last year, more than from any other country, representing more than 11% of total arrivals. A prolonged Indian boycott could seriously hurt the Maldives' economy, a third of which relies on tourism. The Maldives' government was therefore quick to try to contain the spat. On January 7th the three snarky ministers were suspended. On January 9th the Maldives' tourism association implored Indian travel agents to end their boycott.

At first glance, the swift suspension of the three ministers looks like a victory for India, its angry social-media warriors and

Mr Modi. "There is a sense of 'look what happens to a Mickey Mouse country that misbehaves with India,'" says Happyman Jacob of Jawaharlal Nehru University in Delhi. Yet that would be short-sighted—not least because the offending politicians' comments will have been popular with many Maldivians. As is the case with Nepal and Bhutan to the north-east, the Maldives' relationship with India has grown more complex over the past decade as China has extended its influence in South Asia.

In 2014 the Maldives joined China's Maritime Silk Road Initiative; three years later the two countries signed a free-trade agreement. A deal in 2017 to set up a joint ocean-observation station with China caused security concerns in India—especially after the deal encouraged some Maldivians to demand that India withdraw the few dozen soldiers, manning helicopters, that it stations in the archipelago.

In November Mohamed Muizzu, the Maldives' newly elected president, renewed the call for the Indian troops to leave. On January 8th he embarked on a five-day visit to China, including a meeting with President Xi Jinping in Beijing. During the visit Mr Muizzu, who has not travelled to India since taking office, called on China to send more tourists to the Maldives than to any other country.

India needs to respond thoughtfully to China's growing role in its near-abroad. Above all, suggests Mr Jacob, "a responsible aspiring great power should ask itself how to build a more successful partnership with a smaller neighbour." That could help improve India's standing in its neighbourhood. It might also benefit fragile local ecosystems. The calls to boycott the Maldives are now increasingly being countered by equally impassioned calls to save Lakshadweep from overtourism. ■



Sun, sea and Modi

Bangladesh's election

Sheikh, rattle, roll

DELHI

A fifth term for South Asia's iron lady

IT WAS THE kind of result a truly democratic politician can only dream of. Not long after polls in Bangladesh's parliamentary election closed on January 7th, a returning officer in Sheikh Hasina's Dhaka constituency announced that the prime minister had been re-elected with 249,965 votes. The runner-up received 469.

The long-serving prime minister's overwhelming victory was matched by that of her Awami League (AL) party, which won 222 of the 299 seats being contested. With the main opposition party boycotting the poll, the AL was the only powerful political group to take part. The process confirms Bangladesh's transition from a flawed but competitive democracy to a de facto one-party state, albeit with some electoral democratic trappings. Unless Sheikh Hasina, who has governed uninterrupted for the past 15 years, radically changes tack, the country's 170m people face ever-increasing levels of authoritarianism.

Casting her vote shortly after polls opened, Sheikh Hasina naturally declared that the election was free and fair. "I am trying my best to ensure that democracy should continue in this country," she told reporters. Yet many leaders and thousands of supporters of the Bangladesh Nationalist Party (BNP), the only party capable of mounting serious opposition to the AL, spent election day in prison. Most of those still at liberty boycotted the poll. Of the 77 seats not won by the AL, 62 went to so-called "independent" candidates, mostly AL members or supporters who had been fielded with official encouragement to give the impression of a competitive poll. The Jatiya Party, an AL ally currently acting as the official opposition in parliament, won 11 seats. Final results were expected shortly after *The Economist* went to press.

That the election result was baked in was not lost on Bangladeshis. Previous elections, following the country's emergence from military rule in 1991, saw raucous campaigning. By contrast, streets across the country remained largely quiet in the days leading up to this vote. Except for isolated incidents of violence, including an arson attack on a train bound for Dhaka on January 5th that killed four people, the atmosphere was generally calm, though tense in opposition centres such as the teeming capital. The government had taken the precaution of deploying the army widely to maintain order. ►►

▶ Turnout was sluggish, with many polling stations across the country reported to be deserted. Many people eligible to vote told reporters they saw no point in doing so, given that they had little choice of candidates. Shortly after polls closed an official from the election commission told a press conference that turnout was 28%, before swiftly correcting himself and saying it was 40% (on January 8th the election commission announced an official turnout of 41.8%). Local observers considered the lower number more plausible. Either way, it represented a big drop compared

with the previous election in 2018, in which some 80% of eligible voters took part. That election, though marred by allegations of widespread ballot-box stuffing, was not boycotted by the opposition.

Despite this farce of a poll, there is unlikely to be much imminent resistance to Sheikh Hasina's increasingly iron-fisted rule. The BNP is ill placed to recover from the recent crackdown; its ailing leader, Khaleda Zia, Sheikh Hasina's main rival, is languishing under house arrest after being convicted of corruption. Moreover, despite recent high inflation and other economic

pressures, the prime minister's development record remains strong. She has the support of China, India and Russia, all of which were quick to congratulate her on her victory. America and the EU said the election was not free and fair and called on the government to investigate irregularities. Yet they are wary of alienating a big Asian country that is already close to China. They are also big customers of Bangladeshi garments, the country's biggest export. January 7th was a bad day for Bangladesh's democracy. It was another good day for South Asia's iron lady. ■

Banyan Prabowo's to lose

Electoral victory for the controversial former general would set back reformasi

IN A MONTH'S time some 204m Indonesians can vote in a first round to choose their new president. Two of three presidential candidates are emblematic of *reformasi*—that is, the era of often impressive democratic development since the fall of Suharto, the long-ruling late dictator, in 1998. Ganjar Pranowo, who is 55, and Anies Baswedan, 54, have records as competent elected leaders, respectively as governor of Central Java and as governor of Jakarta, the capital. Both are well educated. Their agendas, in a conservative majority-Muslim country, are broadly secular and liberal, and they stress the rule of law. Unlike other powerful politicians, neither is from a military-and-business dynasty.

Then there is Prabowo Subianto, the problematic favourite. He is polling at 43%, versus 25% for Mr Anies and 23% for Mr Ganjar. After President Joko Widodo, known as Jokowi, who is stepping down, the 72-year-old is the country's most recognised politician. A former general from a powerful family, he has long revelled in a strongman image—like Mussolini, he rarely appears happier than when astride a white charger. He is immensely rich, with fingers in many pies. He has contested three presidential elections but never been elected to public office. After Jokowi defeated him twice, the outgoing president made Mr Prabowo his defence minister in 2019.

Co-opting your enemies is a notably Javanese trait. Mr Prabowo returned the favour by naming Jokowi's son, Gibran Rakabuming Raka, the current mayor of Solo, as his running-mate. Mr Prabowo hopes to surf the wildly popular Jokowi brand to victory. In turn, Jokowi hopes to cement his legacy and his family's influence through Mr Prabowo. That is despite his declaration in 2014 that becoming

president “does not mean channelling power to my own children”.

The selection of Mr Gibran required some legal legerdemain. The constitution stipulates that presidential and vice-presidential candidates be at least 40 years old. Mr Gibran is 36. Yet in a ruling in October the constitutional court gave him an exemption. The court's chief justice is Jokowi's brother-in-law and Mr Gibran's uncle. The manoeuvre stank. It undermined democratic norms. With no shame, Mr Prabowo's people delighted in the win.

Even more troubling is Mr Prabowo's pre-*reformasi* record. He had deep ties to the discredited Suharto regime; he was at one point married to a daughter of the dictator. As an officer in and then commander of Kopassus, the army's feared special forces, Mr Prabowo was associated with abuses committed in East Timor, as Pat Walsh of *Inside Indonesia*, an Australian online publication, has detailed. The former Portuguese colony, invaded by Indonesia in 1975, sought and won independence as Timor-Leste in 2002. A truth and reconciliation commission

found that the Indonesian armed forces, and Kopassus especially, were responsible for committing war crimes and crimes against humanity during the occupation. Troops under Mr Prabowo's command conducted massacres. Mr Prabowo was also responsible for training vicious local proxies who did much of the army's dirty work. The former general denies any wrongdoing.

Mr Prabowo's involvement in countering the protests that toppled Suharto in 1998 is well documented. He organised the kidnapping of 23 democracy activists, of whom 13 remain missing. A military council found him guilty of the kidnappings and discharged him dishonourably. He was long banned from entering America. President Donald Trump lifted the ban in 2020.

Known for having an explosive temper, Mr Prabowo has had a makeover. Out has gone his dictator-chic safari suit in favour of business garb. Backed by a canny social-media campaign, he wants voters to know him as a cuddly grandpa. Banyan can attest to his charm, having dined with him. Younger voters know little of his dark past; the Indonesian press and television rarely mention it.

If Mr Prabowo wins more than half of the vote on February 14th, he will become president. If no candidate gets 50%, it goes to a run-off in June between the two leading candidates. The outcome would then be harder to predict. Mr Prabowo's people think that Mr Anies and Mr Ganjar joining forces would sink him. But he means to lure Mr Ganjar to his side and has no lack of political and financial inducements. He could then offer Anies-supporting parties cushy cabinet jobs. Bingo! An opposition-free country in the hands of a bloodstained general from the bad old days. So much for *reformasi*.





Corruption in the PLA

Getting soft

Xi Jinping is struggling to stamp out graft in the armed forces. Will it affect their fighting ability?

MOST ONLINE commentators in China support Russia's invasion of Ukraine. At the same time they criticise Russia's failure to achieve a swift victory. They accuse the West of prolonging the conflict by supporting Ukraine's army, but also fault Russia for its military weakness. Corruption has crippled its fighting ability, they often conclude, despite all its spending in recent years on better kit. It is taboo in China to cast aspersions on the war-readiness of the People's Liberation Army (PLA). But amid reports that it is also struggling with graft as it splurges on new weaponry, there may be good reason for it, too, to worry.

China gives little detail of corruption in its armed forces, beyond—occasionally—highlighting a few egregious cases. It has offered no explanation for a purge of generals that began months ago and is widely believed to involve dishonest dealings. On January 10th a three-day annual meeting in Beijing of anti-corruption chiefs ended as usual with no public mention of military matters, such as the ousting last year of the

defence minister, General Li Shangfu. He has not been seen in public since August (it was not until December that his successor, Admiral Dong Jun, was named). Yet this appears to be the biggest graft-related shake-up in the PLA in years.

In the past, the country's leader, Xi Jinping, has openly fretted about the impact of corruption on the PLA's combat skills. "When I see materials reflecting these issues, I feel deep disgust and often can't help but slam the table," he said in 2014 during his first big campaign against officers on the take. "These problems have reached a point where they must be resolved urgently," he went on. "If the army is corrupt, it can't fight." In 2018 the Commu-

nist Party declared a "crushing victory" in its war against graft in all domains. But it was far from total: the campaign remains "grim and complex", Mr Xi said at the just-concluded gathering in the capital. That has been a common official refrain since the purported triumph was achieved.

Within the PLA the war has reignited. According to Bloomberg, an American news service, the purge has toppled more than a dozen senior military officials in the past six months. They mainly belonged to the PLA Rocket Force, which is responsible for the country's arsenal of land-based conventional and strategic missiles, and the Equipment Development Department, which procures and tests weaponry. Quoting unspecified people familiar with assessments by American spooks, Bloomberg says corruption in the Rocket Force and defence industries "is so extensive that US officials now believe Xi is less likely to contemplate major military action in the coming years than would otherwise have been the case".

If so, that may be good news for Taiwan, which will hold presidential and legislative elections on January 13th (see next story). Tensions may rise should the presidential front-runner, Lai Ching-te, win. He is viewed by China, which claims the island, as a staunch believer in Taiwan's perpetual separation from the mainland. But come what may, American officials believe that Mr Xi has ordered the Chinese armed

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► forces to be capable of invading Taiwan by 2027, the centenary of the PLA's founding.

He is not expected to relax in that effort. State media suggest that a milestone will be reached this year with sea trials of China's third aircraft-carrier, the *Fujian*—the country's largest such vessel as well as the first one entirely of Chinese design. But if Mr Xi believes that corruption is truly rife in the PLA, he may think twice about sending it on such a hugely ambitious mission, especially given the difficulties faced by Russia's army. It had a lot more fighting experience than China's when it invaded Ukraine. China has not fought a war since a brief one with Vietnam in 1979.

Ready, aim, fired

In a war with Taiwan, the Rocket Force would play a big role, both in mounting missile attacks against the island and in trying to keep America at bay. The recent purge began in July with the replacement of its commander, General Li Yuchao, his number two, General Liu Guangbin, and the force's political commissar, General Xu Zhongbo. A former deputy commander of the force, General Zhang Zhenzhong, was also dismissed. In December nine senior officers were expelled from the country's rubber-stamp legislature, the National People's Congress. They included Generals Li and Zhang as well as three others linked to the Rocket Force.

The reasons are obscure. It is widely speculated that possible wrongdoing has included the leaking of secrets about the force as well as corruption. Bloomberg, citing the American intelligence, says graft in the Rocket Force has led to missiles being filled with water instead of fuel and the malfunctioning of lids covering missile silos in western China.

When Mr Xi took power in 2012, the armed forces were rife with corruption. Senior military posts were being sold for hefty sums. They were worth it: holders could rake in money, such as by taking bribes from military contractors or doing deals with private businesses involving PLA land. Mr Xi was ferocious in his attacks on the PLA's corrupt "tigers". Dozens of generals were purged, among them two retired ones who had served as the most senior uniformed officials in the army, Guo Boxiong and Xu Caihou. Mr Guo is now serving a life sentence. Xu died of cancer before a trial could get under way. It is striking that, after so much effort by Mr Xi to clean up the PLA, high-level graft persists.

We are hiring a correspondent to strengthen our China coverage. Candidates should be willing to be based in mainland China. A knowledge of geopolitics and economics is helpful. Applicants should send a cv, a cover letter and an unpublished article of 600 words suitable for publication in *The Economist* to chinawriter@economist.com. The deadline is February 23rd 2024.

Mr Xi's shake-up of the armed forces has included raising the status of its anti-corruption agency. In 2016 the PLA's graft-busters began copying the way their civilian counterparts operate by sending teams into military units to look for corruption. Mr Xi has also stepped up political education among the troops, hoping that earnest study of Xi Jinping Thought on Strengthening the Military, as his teachings are officially known, would help improve their behaviour. Stay absolutely loyal to Mr Xi and the party is the essence of soldiers' frequent study sessions. (Whether these time-consuming classes get in the way of training men to fight is something Mr Xi appears not to question.)

There is little sign that recent ill-discipline involves any direct challenge to his leadership. With his round-up of generals a decade ago, Mr Xi seems to have stifled

potential opposition to his rule from within the armed forces. Many of those officers appeared to have been singled out because of their loyalty to his predecessors, whom he viewed as rivals.

But Mr Xi is still troubled by what he sees as potential threats to his rule. In his speech at the anti-graft meeting, he said that "breaking free from the historical cycle" should be viewed as a "strategic goal". This was a reference to one of his preoccupations: the fall of great empires as a result of rot. "Throughout history, many armies with remarkable military achievements ultimately fell victim to corruption and were brought down. This must serve as a warning," said a screed on Mr Xi's military thinking that was published last year on the defence ministry's website. It is clear that some officers are not studying their textbooks hard enough. ■

China and Taiwan

Trading threats

TAIPEI

China heaps pressure on Taiwan ahead of a big election

THERE IS NO doubt which party the Chinese government favours in Taiwan's presidential and legislative elections on January 13th. Officials in Beijing see the ruling Democratic Progressive Party (DPP), which takes a defiant stance towards China, as a gang of separatists standing in the way of Taiwan's unification with the mainland. The Kuomintang (KMT) party, on the other hand, is much more friendly towards China. The island faces a choice between

"prosperity and recession" and between "peace and war", say Chinese officials.

The people of Taiwan see things differently. They want neither recession nor war, but according to opinion polls, a plurality favours Lai Ching-te, the DPP's candidate, to be their next president (the rest of the vote is split between Hou Yu-ih of the KMT and Ko Wen-je of the Taiwan People's Party). China is not happy. On January 1st it re-imposed tariffs on 12 petrochemical products that had been covered under a cross-strait trade deal, the Economic Co-operation Framework Agreement (ECFA).

In the days ahead of recent Taiwanese elections China acted with restraint, fearing that any use of the stick might cause voters to flock to the DPP. Voters have done so anyway. Tsai Ing-wen of the DPP won the last two presidential elections (term limits now require her to step down). So this year China has changed tactics. Though it accuses the DPP of hyping the threat of war for electoral gain, China has been sending warplanes over the Taiwan Strait and spreading disinformation on the island. The new trade restrictions seem aimed at showing Taiwan the economic consequences of electing the DPP.

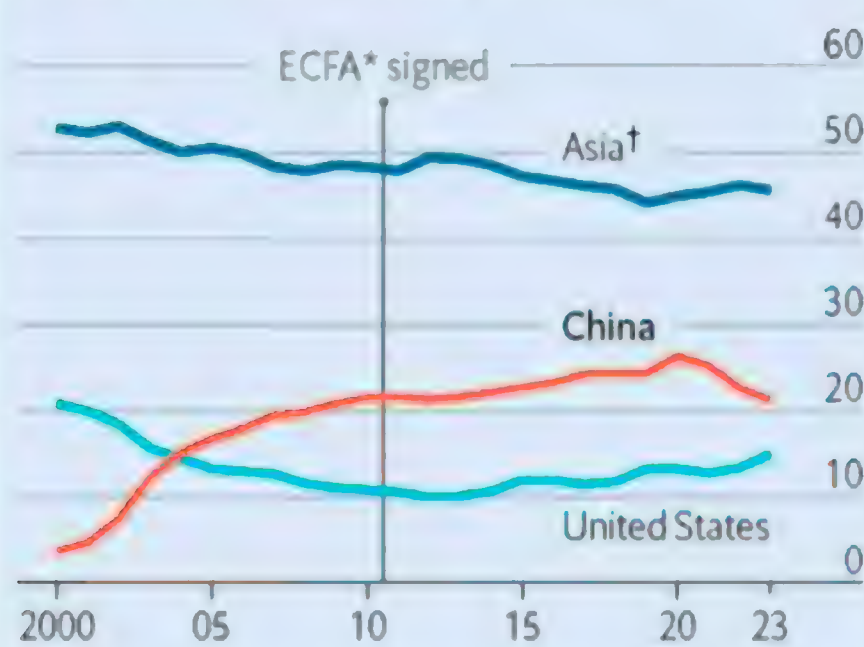
The ECFA, signed in 2010, is one of many economic carrots offered by China to past KMT governments in the hope of bringing Taiwan closer to the mainland. By far the most significant, the deal covers 539 Taiwanese products and 267 Chinese goods, ►►



Feeling hounded

Moving away from the mainland

Taiwan, merchandise trade, % of total



*Economic Co-operation Framework Agreement †Excl. China
Source: Ministry of Finance

▶ along with a range of services, while outlining a path to a full free-trade agreement. The DPP opposed it at the time, seeing it as a step towards unification. (An argument over the deal even led to a fight in the legislature.) Since coming to power, though, the party has not scrapped it.

But it has also not engaged in negotiations with China to lower trade barriers erected by previous Taiwanese governments (these aimed to protect small and medium-sized businesses). China insists that the reimposition of tariffs on petrochemical products was in response to those barriers, which it expected to be lifted. Chinese officials, though, have undercut their own argument by saying that any negotiation over trade issues must begin with the DPP's recognition of the "1992 consensus", an agreement between the mainland and the KMT government at the time that there is "one China" with multiple interpretations. Ms Tsai does not accept that there is such a consensus and has called on China to refrain from using the ECFA as a political weapon. She wants the dispute resolved at the World Trade Organisation.

So far China's actions are having little economic impact. The 12 restricted items account for a tiny proportion of Taiwan's total exports to China. But things could get worse. China is mulling whether to do away with other portions of the ECFA—and perhaps the whole thing.

That would be in keeping with a trend. For years the economic ties between Taiwan and the mainland have been fraying. For most of the past decade China was the top destination for Taiwanese investment, but that is not the case today. The island's trade with China, as a percentage of its total, is also shrinking (see chart).

Still, China remains Taiwan's biggest export market. Messrs Hou and Ko therefore hope to build on the ECFA. Mr Lai is not interested. He wants to do more to lessen Taiwan's reliance on the Chinese market. If he wins, the two economies will probably move further apart, while the prospects of peaceful unification dim. ■

Cartoons and security

No laughing matter

BEIJING

A comical effort by the intelligence agency

FOREIGN SPIES are lurking everywhere! So says the Chinese government. Officials were ruffled by the CIA's claim, made last year, that it was rebuilding its spy networks in China a decade after most of its sources disappeared. But China's reaction seems defined more by paranoia than vigilance. The national intelligence agency, the Ministry of State Security (MSS), wants the entire population to be on the lookout for spies.

To improve public awareness, the ministry has launched an online comic strip called "Shenyin Special Investigation Squad". It will feature heart-pounding action, say China's spooks. The first instalment, released on January 7th, shows the capture and interrogation of a blond-haired man, seemingly foreign, who is suspected of breaking the country's counter-espionage law.

It also introduces the members of the Shenyin team. Among them are a tech geek named A Zhe (he wears glasses and enjoys bubble tea) and a martial-arts whizz named Dan Dan (she is a long-haired police officer). An agent named Lao Tan has 20 years of experience in the field of security and an unspecified set of skills (one imagines they are very particular, a nightmare for certain people).

The first instalment ends with the team investigating suspicious activity in the Xishan mining area. According to the MSS, the story is inspired by actual counter-espionage cases.

The intelligence agency is working hard to help "the seeds of national security to take root and sprout" in the minds of young people. Last year it joined WeChat, a popular messaging app, where it shares stories of devious foreign spies at work. Now it is creating comics. But such propaganda efforts, with their predictable themes and lack of subtlety, are usually met with indifference—or even derision—from the intended audience.

Still, the comic strip serves a purpose, reinforcing the impression that any interaction between Chinese people and foreigners will be viewed with suspicion by the government. Last year it expanded the counter-espionage law, banning the transfer of information related to security and national interests, which it did not define. The European Chamber of Commerce in China cited uncertainty over the scope of the law as one reason why its members were losing confidence in China's business environment.

Other moves by the government have added to the febrile atmosphere. In 2015 officials set up a hotline that ordinary citizens could use to report their suspicions. Some local governments offer big rewards for tips on espionage cases. China established an annual National Security Education Day years ago. Though, according to the MSS, publication of the comic was timed to coincide with Police Day on January 10th.

To some Chinese, the comic is a worthwhile piece of propaganda. One of the country's best-known nationalist commentators, Hu Xijin, wrote on social media that the security services should speak more about the threat of espionage and highlight the cases they've cracked. But he also warned that they shouldn't go too far, lest China cut itself off from the world. That, he said, "would be like not eating for fear of choking".



A break in the case

Chaguan | Mourning China's boom years

A hit TV drama presents 1990s capitalists as heroes, not villains



CHINA CENTRAL TELEVISION, the flagship network of the country's propaganda machine, has a new hit on its hands. "Blossoms Shanghai", a big-budget melodrama in 30 parts, has enjoyed huge audiences since its first episode aired on December 27th. The show's success—boosted by approving coverage in official and commercial media outlets—is at once unexpected and revealing. It is a surprise because its heroes are swashbuckling capitalists in the Shanghai of the early 1990s. A hard-living bunch, they cut deals, swap stock tips and scheme against rivals over an endless succession of boozy late-night banquets, filmed in demonic shades of black, gold and red. It is all a far cry from the prim, flag-waving dramas that have become the norm on state TV during Xi Jinping's rule. Typically, such series depict crime-fighting police officers, Communist Party officials toiling to serve the masses, brave Chinese soldiers or other model citizens.

Enthusiasm for the drama, the first TV series to be directed by Wong Kar-wai, a pillar of Hong Kong's film industry, sheds light on the Chinese public's mood. Much praise for the show has a distinctly backward-looking feel to it. Online, fans share their memories of boom years when ordinary Chinese could transform their fates with a lot of luck, good connections and hard work.

At the same time, the show's endorsement by government media is revealing about the hopes and fears of the country's rulers. This official embrace is rather tactical and forward-looking. Boosterish coverage of the drama is in line with a broader campaign by party leaders to cheer up Chinese consumers, whose post-pandemic caution is one reason why the economy is in a funk. Party newspapers credit the drama with sparking a measurable surge in Shanghai hotel and restaurant bookings. Arguably, a show whose stars are heroic entrepreneurs also aligns with current official efforts to reassure China's private sector. Business types have been battered by heavy-handed regulation in recent years and left feeling generally unloved.

The hero is A Bao, a former factory worker shown making and almost losing a fortune on the stockmarket and in domestic and foreign trade. He is guided by an old man whose counsel runs from business strategy to the right cut for a three-piece suit. ("It has to be British-woven, pure wool," the sage sternly instructs a lo-

cal tailor, summoned to make A Bao a new wardrobe.) The drama, adapted from a novel by Jin Yucheng, portrays capitalism as something between a test of nerves, a cruel game and a form of madness, capable of inducing a frenzy in consumers and investors alike. Characters cheat one another and commit suicide when ruined. Yet time and again the survivors are drawn to feast together at the same few restaurants, to plot and show off and drink. In contrast with the real 1990s, official corruption is nowhere to be seen. Indeed, the only important character with a public-sector job (at Shanghai's agency for foreign trade) is a paragon of honesty who uses her savings to repay businessmen for gifts they offer her.

To learn more about the show's success, Chaguan caught a fast train to Shanghai and headed to Huanghe Road, a street of restaurants and Art Deco mansions from the 1930s where much of the drama is set. He found a throng of fans taking photographs and filming themselves for social media, over the shrill, electronic whistles of police officers controlling crowds and directing traffic.

Chinese public opinion is rarely monolithic, and responses to the drama divided along lines of home town, age and social class. Locals are happy that the whole series was filmed in Shanghai dialect, with a second version dubbed into Mandarin for nationwide release. Several Shanghainese pensioners shared strong views about the drama's realism, or lack of it. Back in the 1990s a lot of business was done over dinner, agreed an old man who worked in Shanghai's finance sector. But overall the series is a "fantasy", he scowled. "Those who went into the stockmarket and business were the rare bold ones. Most people worked in factories."

Three older women taking pictures had dressed for a fine dinner, though it was noon. They recalled neon signs that lit up Huanghe Road in those boom years. "Many businessmen gathered here, with their huge mobile phones," remembered one of the women. The trio were not among them. They were assigned jobs in a state-owned textile factory and stayed there until retirement. Modern life offers more choices but more pressure, they declared. In their telling, the series brings the Shanghai of their youth back to life. "But what use is nostalgia?" asked the same woman.

Nostalgia as a veiled form of complaint

The sharpest opinions came from middle-aged fans, some of whom carried small dogs or trailed bored-looking husbands. The early years of China's "reform and opening" era were a time of hope, filled with new experiences, said a 50-year-old woman. She sighed: "We were lucky that we were born in a good age." In her view, life is very different now, and more stressful. Asked why, she replied that it is "hard to talk openly" about this. "There are so many reasons, political factors, among many others."

Young fans sounded more wistful than cross. For two female students, a lesson of the series is that there were more opportunities to move up in the world in the 1990s than now. A 25-year-old man had travelled from Hangzhou, an hour away by train, to take pictures of Huanghe Road. The series may inspire some viewers to start businesses, he enthused. Alas, capitalism is all about timing, he went on. Some may feel they have missed their moment.

Still, China's entrepreneurs should not become cocky about being cast as on-screen heroes. "Blossoms Shanghai" may be a runaway success, but at moments in early January the most-watched show on state TV was a documentary series about officials corrupted by business interests. Back when China first embraced market reforms, party leaders declared: "To get rich is glorious." In the Xi era, the lure of money remains distinctly dangerous. ■



The war in Gaza

A logistical nightmare

DUBAI AND JERUSALEM

Foreign aid alone will not be enough to avert a famine in Gaza

BEFORE THE war, Gaza was something of a paradox. It was one of the most aid-dependent places in the world: repeated wars and an Israeli-Egyptian blockade crushed the private sector. Yet the sprawling humanitarian operation that cared for 80% of 2.2m Gazans relied on the private sector. If a charity needed flour, it rang up a trader in Gaza, who called a mill in Israel or the West Bank. Aid workers might handle the last-mile delivery to bakeries and families—but businesses took care of the rest.

It may sound absurd to talk about supply chains in the context of a war that has, in just three months, killed 1% of Gaza's population and damaged around one-fifth of its buildings. South Africa has accused Israel of genocide. This is a highly contentious claim. Nonetheless the deepening humanitarian crisis is among the worst of the 21st century. Aid agencies say that, if nothing changes, more Palestinians in Gaza will die this year from hunger and disease than from Israeli bombardment.

But logistics are part of the problem—and the solution. Israel expects the UN to

oversee aid efforts. So does Hamas, the militant group that has operated a ruinous and cynical regime in Gaza since 2007. That is unrealistic. Averting a famine will require Israel to facilitate the flow of commercial goods and, perhaps, to provide supplies directly. "Aid alone will not be enough," says Philippe Lazzarini, head of the UN Relief and Works Agency (UNRWA), which helps Palestinian refugees. "We need the private sector." Getting private businesses working could ease the distribution bottlenecks and allow for the import of more aid. UNRWA says it could then shift to providing cash assistance rather than just handing out meagre rations. People could use that money to buy food.

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37 The IDF's dilemmas multiply

38 South Africa and the Palestinians

39 Africa's new cities

The scale of the crisis is staggering. Around 1.9m people (85% of Gaza's population) have been displaced. 1.4m are sheltering in schools and other facilities run by UNRWA. "Conditions are just appalling," says Mr Lazzarini. One warehouse in the southern city of Khan Younis hosts some 30,000 people; tens of thousands more camp outside. A brutal wartime economy means many Gazans cannot even afford a nylon roof over their heads. The UN's World Health Organisation says there is only one shower for every 4,500 people in Gaza, and one toilet for every 220.

Infrastructure has collapsed. Almost two-thirds of Gaza's hospitals are closed; the 13 still working are overflowing, with patients being treated on blood-slicked floors. They do not have enough supplies or staff. Desalination plants that once supplied clean water have shut down for lack of fuel and spare parts. Displaced children have access to just two litres of water a day.

The UN uses the five-step Integrated Food Security Phase Classification (IPC) scale to measure hunger. At phase 1, people are fine. At phase 5 they are starving to death, regularly skipping meals and often going 24 hours without food. Arif Husain, the chief economist at the World Food Programme, says 706,000 people around the world are at that worst level. Four out of five of them—577,000—are in Gaza (see chart on next page). "The scale, severity and speed make this crisis unprecedented," he says.

▶ In interviews in recent weeks, displaced Palestinians in Rafah, at Gaza's border with Egypt, said they receive meagre rations from aid agencies: a family might get a tin of beans for the day. Markets might have some tomatoes and aubergines, but few staples—and when they are available, they are unaffordable. A sack of flour costs ten times more than it did before the war.

Gazans fortunate enough to have savings cannot get hold of them. One man recounts a day spent in queues at six ATMs, all of which ran out of cash before he reached them. Employees from the Bank of Palestine have run risky missions to replenish a handful of ATMs in the south, using banknotes from vaults in the north. But the financial sector, like everything else in Gaza, has mostly stopped functioning.

The IPC has three criteria for declaring a famine: 20% of the population must be starving; 30% of children must be severely malnourished; and two people out of 10,000 be dying daily due to hunger. Gaza meets the first criterion. Aid agencies say they cannot assess the other two because the health system has been destroyed.

Minutes away from Gaza, just across the border in Israel, there is a Western-level health system and there are no shortages of food. The desperate conditions in Gaza are not an inevitable by-product of war; they are in part the result of political decisions made by the Israeli government.

For the first two weeks of the war Israel let nothing into the enclave, which forced businesses and families to deplete stocks of food, medicine and other essentials. On October 21st it began allowing goods to flow via the Rafah crossing with Egypt (an agreement with the Palestinian Authority in 2005 requires Israel to consent to such deliveries). Lorries have entered almost every day since then, from a low of eight on October 25th to a high of 300 on November 28th, during a week-long ceasefire meant to facilitate the release of Israeli and foreign hostages held in Gaza.

Until recently, each lorry had to drive from Rafah 50km (31 miles) south to Nitzana, on the border between Israel and Egypt, to be inspected by Israeli authorities. Then it drove back to Rafah. Last month, under American pressure, Israel said inspections could take place at Kerem Shalom, a border point between Israel and Gaza that was the main pre-war crossing for commercial goods. Still, even with a second crossing, deliveries are far short of the 500 to 600 lorries a day that entered Gaza before the war. "And that was in a situation where you also had food production happening in-

side of Gaza," says Tania Hari, the director of Gisha, an Israeli NGO that lobbies for the free movement of goods and people into the strip. "Today there is almost no production to speak of, no agriculture, no fishing."

Israeli officials insist that there is plenty of unused capacity for extra lorries at Nitzana and Kerem Shalom: if the UN wants to bring more aid to Gaza, it can. Aid workers call that disingenuous, "as if we can just wave a magic wand and make more trucks appear", says one. ▶▶

The hub that once was Gaza

The dream of a continental crossroads

TEL AVIV

If only there were peace, Gaza could be a link to everywhere



FOR TWO weeks *RFA Lyme Bay* sailed around the Mediterranean, waiting to land. Its shallow bottom made it perfect for dumping emergency supplies onto the sands. On board were almost 90 tonnes of shelters, blankets and medicine, approved by Israel for entry into Gaza. Israel's then foreign minister, Eli Cohen, said it could land "immediately". But after leaving the Cypriot port of Larnaca in mid-December, it sailed west instead to Malta and finally offloaded its cargo in Egypt at the start of January. "Israel could not guarantee its safety," says a diplomat involved in the mission.

Gaza's 40km coastline should be ideal for landing aid. But Israel is torn between its desire to be rid of the Gaza problem and its urge to control everything that enters it. "[Aid] won't come via Israel," meaning by land, said Mr Cohen last month, backing a sea corridor instead. But Israel's security bosses are loth to let anyone else decide what should go to Gaza. Their dual-use list (items banned because they could theoretically have

some military use) includes fridges, water filters and apparently even lavatory seats. Egypt is ambivalent too. It fears the prospect of Gazans spilling into Egypt if the gates are opened too wide.

Gaza was once a hub with spokes linking Europe, Asia and Africa. Its ancient port of Anthedon (Tida, as Palestinians call it) dates back to the Phoenicians 3,000 years ago. Hellenistic remains still poked out of the sands before Israel's recent bombardment. Until 1948 it hosted a railway linking Cairo to Damascus. It had one of the Middle East's first airports. But for the past 75 years occupation by Egypt and then Israel, with a blockade for two decades, has all but cut the old junction off from the world.

Efforts to revive its transport links have repeatedly run aground. In 1993 the Oslo peace accords between Israel and the Palestinian Liberation Organisation promised a seaport. But Israeli restrictions on construction goods slowed progress. Israel bombed it—and a renovated airport—during the intifada (uprising) that lasted from 2000 to 2004. In 2005 Israel agreed to an American-brokered "access and movement" deal providing for a new airport, a seaport and a bus route to the West Bank. But after Hamas won Palestinian elections in 2006, putting in place a venal government in Gaza, Israel tightened the noose.

The Palestinian Authority in the West Bank, estranged from Gaza since 2006, is also wary of a sea link, lest it disconnect the strip from the rest of Palestine. It might also give Palestinians an escape route and trigger a mass exodus.

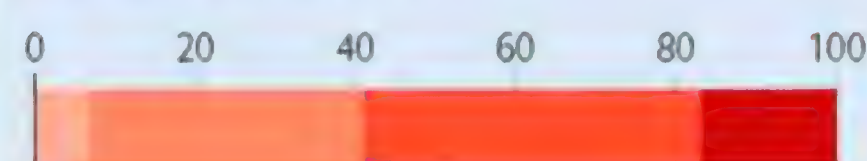
Still, Gaza seeks a sea change. For decades it has looked to the Mediterranean for salvation through offshore gasfields, hospital ships or even an idea floated by Israel for an artificial island to host a power station and to serve as a port for ferries and cargo ships. If only.

A deepening crisis

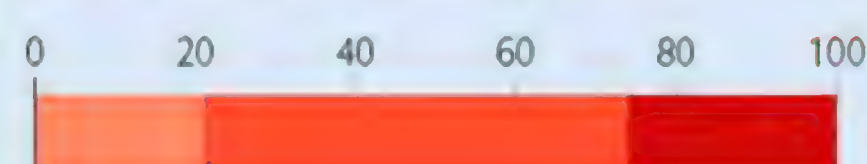
Gaza Strip, food insecurity, % of total population

● Stressed ● Crisis ● Emergency ● Catastrophe

Nov 24th-Dec 7th 2023



Dec 8th 2023-Feb 7th 2024, projected



Source: IPC

▶ The inspections themselves are complicated. The Dutch government paid for x-ray scanners at Kerem Shalom, which have been in use since December. They should allow lorries to be checked without being unloaded and reloaded—but Israel insists on inspecting them manually, which adds hours to each delivery. The crossings have limited hours, and drivers inside Gaza are nervous about working after dark, when Israeli bombardment is often heaviest.

Israel has an ever-changing list of “dual-use items” prohibited from entering Gaza because they arguably have some military purpose. It would be more efficient to desalinate water in Gaza than truck in bottled water, but spare parts for desalination plants are on the list and thus barred from entry. So are dozens of generators donated by Kuwait, along with solar panels and solar-powered lights. Many things can be deemed dual-use: batteries, stretchers and heaters have been rejected on the grounds that Hamas fighters could use them.

Another problem is what is being sent—and what is not. Donor countries are sending whatever they collect, which is not always what Gaza needs. “At the beginning we even saw shipments of covid vaccines, which is certainly one of the last things we need now,” says Mr Lazzarini. “What’s being sent in kind does not always match what is required on the ground.”

Humanitarian groups are quietly critical of Egypt’s role as the main conduit for aid. Some of the problems are logistical. But one UN official in Jerusalem also says that the Egyptian Red Crescent, which is responsible for aid deliveries at Rafah, is “not competent”. Corruption is rife. Lucrative goods disappear from warehouses while expired ones are delivered to Gaza. Keen to make a profit from the aid operation, firms in Egypt are selling non-essential products, such as chocolate, to be loaded onto aid lorries.

It is a cumbersome process for NGOs that used to work in Gaza to register in Egypt. Some are trying to set up operations in Jordan, where they can work more easily. Diplomats are talking about a sea route from Cyprus, which would bypass the crowds and corruption at the Rafah crossing (see article on previous page). Jordan has conducted several air drops, but they are costly and haphazard.

The best way to supply Gaza, however, would be through Israel, which is how around two-thirds of goods entered the enclave before October 7th. Over 90% of those shipments were ordered by private firms; just 4% were bound for aid agencies, which sourced most of their needs from Gazan businesses. Today, though, almost all the lorries reaching Gaza are destined for the UN (Israel allowed a small commercial shipment last month). It is not clear how much of Gaza’s private sector is still intact: warehouses and lorries have been bombed, drivers and traders killed. But aid workers think it is still viable.

This would require Israel to let in shipments from its own territory. “It will happen ultimately, but the politicians are dragging their feet,” admits an Israeli security official. If firms in Gaza cannot buy from Israeli companies, they could turn to suppliers in the West Bank, which before the war sent about 25% of the goods entering Gaza. Goods there are often cheaper than in Israel.

Israel could also provide aid directly. Binyamin Netanyahu’s government, which relies on far-right members of its coalition, is loth to supply Gaza with food and medicine, as are many Israelis. The prospect of any aid giving succour to terrorists is hard to stomach. Family members of some of the hostages have tried to block the road to Kerem Shalom. Still, the army has the ability and resources to bring in supplies. Israel is unarguably the occupying power in at

least parts of Gaza. International law thus requires it to use all means available to ensure Gaza has enough food and medicine. One Israeli commander says the army is prepared to supply Gaza if it gets the order.

All of this assumes that the war will continue for months. A lengthy ceasefire would be the best way to flood Gaza with needed aid—but Israeli officials have made it clear they plan to fight on. “We’re talking about logistics because we have no other choice,” says Ms Hari. ■

Gaza

The dilemmas multiply

GAZA CITY

Israel has yet to demolish even half Gaza’s tunnels

DESTROYING THE network of tunnels built over the past 16 years by Hamas, the militant movement that has run Gaza since 2007, is one of Israel’s chief war aims. At the start of the conflict Israel estimated that it stretched to hundreds of kilometres. Today security officials concede that this is probably an underestimate. And while the war has been raging for over three months and Israel has killed over 23,000 Palestinians, mostly civilians, the Israel Defence Forces (IDF) calculates that it has yet to destroy even half the tunnels.

In Shujaiya, a neighbourhood in the east of Gaza city that was, until the war, home to 100,000 people, the IDF has discovered a part of the network of which it was previously unaware. It is believed to belong to Palestinian Islamic Jihad, one of the smaller militant groups funded by Iran. On a recent visit to the area with Israeli forces, *The Economist* saw an IDF brigade find two large shafts by the wall of a school. Cables that used the school’s electricity to provide power to the tunnel could be seen running down below ground.

Israel claims the subterranean city is used solely to hide fighters, weapons and rocket launchers. The IDF says it has so far discovered over a thousand tunnel shafts in Gaza city. Many are small and can be destroyed quickly. But blowing up some of the larger ones requires complex engineering and demolition operations. The tunnel in Shujaiya took over a week to find and several large explosions to demolish.

Colonel Nadav Maisels, who is in charge of the mission in Shujaiya, says that his troops have killed most of the local Hamas battalion, including its commanders, but that dozens remain who are now “in guerrilla mode”. That means the IDF is often operating under fire. With many similar tunnels remaining, Israel will have to ▶▶



Ready and waiting and waiting

▶ decide for how much longer its troops carry out such dangerous work.

The Shujaiya tunnel network is a priority for the IDF because the neighbourhood is just a kilometre from the border with Israel. It overlooks the kibbutzim of Nahal Oz and Kfar Azza, where dozens of civilians were murdered on October 7th. Others were taken hostage and are still being held in Gaza. "Ultimately our mission is that people can come back and live in the kibbutzim in peace," says Colonel Maisels.

But senior officers admit they will not be able to destroy the entirety of Gaza's tunnel network. The time Israel has for large-scale operations in Gaza city is running out. International pressure to scale down the war, particularly from America, is forcing Israel to begin withdrawing troops. So is the need to allow hundreds of thousands of reservists, who have been in uniform for over three months, to return to civilian life. Israel faces growing calls to allow more than 1m Palestinians displaced from northern Gaza to start returning there. That is not possible while the IDF is still blowing up tunnels.

Meanwhile, another IDF division is fighting in and around Khan Younis, the second-largest city in the Gaza Strip, where Israeli intelligence believes the leader of Hamas, Yahya Sinwar, is holed up along with more than 100 Israeli hostages. The campaign in Khan Younis began on December 1st and has yet to deliver any tangible results. "The problem is that they are trying to achieve three different objectives," says one veteran commander. "To destroy Hamas's Khan Younis brigade; to eliminate Sinwar; and to rescue the hostages. Each of these missions requires a different tactical approach, but they're trying to do all three at once."

The dilemmas faced by Israel's generals in Gaza are only sharpening. They must now also factor in the need to facilitate an emergency humanitarian operation to prevent the real possibility of famine and an outbreak of disease among over 2m Palestinians, most of them crowded into the south of the territory.

The generals say they need more time but ultimately these decisions—about how long operations in Gaza city and Khan Younis will continue, whether to extend humanitarian assistance to the displaced Palestinians and when to allow them to return to what little remains of their homes—lie with Israel's politicians. Binyamin Netanyahu, the prime minister, is under conflicting pressures from America, which has so far given Israel essential military and diplomatic support, and from his far-right coalition partners who control his political fate and are threatening to bring down his government. Political paralysis in Jerusalem will mean more uncertainty on the ground in Gaza. ■

South Africa and the Palestinians

Old comrades

JOHANNESBURG

History and opportunism explain South Africa's support for the Palestinian cause

HYPOCRISY HAS, it would seem, no limits when it comes to South Africa's foreign policy. Exactly a week before the country was due to accuse Israel of genocide before the International Court of Justice (ICJ) on January 11th, President Cyril Ramaphosa played host to Muhammad Hamdan Dagalo, a Sudanese warlord whose Janjaweed militia and its successor are accused of genocide and war crimes in Darfur. Adding to the insult, Mr Dagalo, also known as Hemedti, later visited the genocide museum in Kigali, Rwanda.

Just as jarring was a ceremony on December 5th marking ten years since the death of Nelson Mandela, a man seen by the world as a symbol of reconciliation and peace. A Hamas delegation led by Bassem Naim, a senior official, joined Mandela's grandson, Mandla, in a march through the streets of Pretoria, the capital. At their destination—the statue of Madiba (as Mandela is honorifically known) that stands proudly outside the president's office—they laid a wreath with Lindiwe Zulu, the social-development minister.

As symbols of solidarity go, it does not get much stronger than that, and puts South Africa in the company of only a handful of countries that have diplomatic relations with Hamas, an outfit widely deemed to be terrorist. This designation holds little weight for the ruling African National Congress (ANC), which was itself often called a terrorist organisation before orchestrating South Africa's largely peace-

ful transition to democracy. In Palestine's plight, the ANC sees echoes of its own long fight for freedom.

Other symbols of solidarity with Palestine are visible all over South Africa. Motorway billboards proclaim "Genocide IS-RAEL". Street artists have painted murals in cities, including a Palestinian flag that covers an entire apartment block in Cape Town's historic Bo-Kaap district. Even homeless people begging at Johannesburg intersections have decorated their placards with #FreeGaza stickers.

A legacy of apartheid

The salience of the Palestinian cause in South Africa has deep roots. The ANC developed an antipathy towards Israel during the years of apartheid, or white rule, when the Jewish state supplied weapons and technology to South Africa, which had been put under a UN arms embargo. And Mandela saw in Yasser Arafat, the late leader of the Palestinians, a fellow "comrade in arms" who was also trying to win freedom for his people.

"South Africa and Palestine share a common history of struggle," the ANC observed in its latest policy document, referring to links with the Palestine Liberation Organisation that go back decades. The document, published in late 2022, described Israel as an "apartheid state" and called for South Africa to downgrade its diplomatic presence in Israel. Israel strongly objects to the apartheid analogy, ▶▶



Ties bound in struggle

which is in any case flawed: Arab-Israelis face discrimination, but they have full democratic rights. Even so, the denial of statehood to Palestinians in land Israel occupied in 1967 resonates.

"South Africa's voice has been loudest, mainly due to the fact that our liberation history and struggle is most recent, and that the system of apartheid that Israel practises against the Palestinians is eerily similar," says Suraya Dadoo, a South African writer and pro-Palestine activist.

Perhaps more puzzling was South Africa's enthusiastic embrace of Hamas after it attacked Israel on October 7th, even as many Arab countries sought to distance themselves from the group. The government was slow to condemn Hamas's atrocities, though it eventually did so, and was quick to speak out against Israel's invasion of Gaza and the high civilian death toll.

In the immediate aftermath of the Hamas attack, even before the Israeli invasion began, the foreign minister, Naledi Pandor, had a call with Ismail Haniyeh, the leader of Hamas, ostensibly to discuss getting aid into Gaza. Hamas claimed that Ms Pandor had expressed solidarity with the group, though she denied this later. The call was followed by a whistle-stop visit to Tehran, where she discussed the issue with Ebrahim Raisi, Iran's president.

At the same time relations between South Africa and Israel deteriorated sharply. In early November South Africa recalled all its diplomats from Tel Aviv. Later that month Parliament voted to suspend all diplomatic ties and shut down the Israeli embassy in Pretoria (the resolution has yet to be implemented, though Israel has now recalled its ambassador). At the end of December South Africa filed its suit against Israel at the ICJ.

All this is consistent with the ANC's policy positions, but there may be more to it than that. For Mr Ramaphosa's beleaguered government, the war could not have come at a better time. Before Hamas's attack, the president's approval rating was at an all-time low of 40.7%, according to a survey of registered voters by the Social Research Foundation. Voters were fed up because the economy is stalling, the blackouts keep on rolling and there has been little visible action against corruption. In the general election later this year, the ANC is expected to dip below 50% of the vote for the first time in a national election.

The war in Gaza is an opportunity to turn this around. "The ANC is trying to elevate this into an election issue, to potentially try and distract from some of the core economic issues," says Ronak Gopaldas, a director of a South African risk-analysis firm, Signal Risk. A new poll released in November shows a four-percentage-point increase in Mr Ramaphosa's approval rate.

South Africa's standing abroad has been

equally poor, because of its muddled response to Russia's invasion of Ukraine. While South Africa's diplomats insisted it was trying to avoid a new cold war, Western countries were left aghast at South Africa's failure to condemn the invasion, and viewed its subsequent offers to mediate the conflict with suspicion. Russia did not appear to be any happier with South Africa's stance: it bombed Kyiv just as Mr Ramaphosa and a number of other African leaders arrived for well-publicised (albeit fruitless) negotiations with Volodymyr

Zelensky, Ukraine's president.

"South Africa is attempting to regain some of the moral high ground as a voice of the global south, which it lost with its positioning over the Russia-Ukraine crisis," says Mr Gopaldas. Although South Africa's case before the ICJ, which was due to begin as *The Economist* was going to press, has annoyed Israel's Western allies, it has won the country kudos from emerging "middle" powers. Indonesia, Malaysia, Turkey and the Organisation of Islamic Co-operation, among others, have joined the case. ■



Africa's new cities

Are satellites the solution?

TATU CITY

A Kenyan manual on how to build an African satellite city

FOR ALL but the well-off, living in an African city can be dispiriting. Home is often a cramped shack in a fetid slum. Getting to work, if there is any, means navigating rutted streets and manic traffic. Unlit alleys give cover to ne'er-do-wells, making the trudge home even more hazardous. Given all this, it would not be unreasonable to assume that few people would want to live in Africa's cities. Yet every year millions gamble on swapping a prospect-free rural life for a potentially fortune-changing urban one, however Dickensian.

If African cities are creaking, the future looks even more forbidding. Africa's urban population has trebled since 1990. Over the next 26 years it may expand by another 900m people. By 2100, five of the world's seven most populous cities could be African. Lagos, unnavigable at the best of times, may be home to 88m people.

In theory, urbanisation should bring

many benefits. A country typically gets richer as its people move into cities and get more productive jobs. But Africa has largely proved an exception. Wages may be higher, but urbanisation has done less to reduce poverty and transform Africa's economies than it should have.

As cities burst their seams, advocates have long argued that building new "smart" ones on their peripheries would help alleviate such problems. The Charter Cities Institute, a non-profit organisation, reckons that, if done correctly, such projects could accelerate growth, encourage investment, create jobs and lift millions out of poverty. Chronic underinvestment, poor urban planning, corruption and municipal ineffectiveness have crippled existing cities. Starting afresh does, therefore, have its appeals. After all, similar initiatives, most famously in Shenzhen, helped unleash spectacular growth in China and

► parts of South-East Asia.

When it comes to building new cities in Africa, however, reality sometimes struggles to match the hype. HOPE City, a \$10bn tech-city meant to house Africa's tallest skyscraper, should have been completed on the outskirts of Accra, Ghana's capital, by 2016. Despite earning awards for Roland Agambire, the businessman behind HOPE's all-caps dream, it was never built. Akright City near Uganda's capital, Kampala, was conceived on a similarly grandiose scale, with shopping malls, a 50,000-seat sports stadium and "a signature golf course with seeds for the greens flown in from Florida". Plagued by debt and scandal, little of the project was ever realised. Last year the company behind it filed for bankruptcy.

Such failures are hardly the exception. Many never move beyond the design stage. Even those that do risk becoming perpetual building sites. "The most visible aspect of most smart cities is roads with nothing on either side," notes Mira Slavova of Warwick Business School in Britain. Yet giving up on them would be premature. There is no ready manual that predicts whether or not a new city project will succeed, but if there is one country whose experience might come close, it is Kenya. One of its projects has long been viewed as a pig's ear; the other has the makings of success.

Take the pig's ear first. Unveiled in 2008 as a \$15bn smart city project, Konza Technopolis was supposed to be the heart of Kenya's "silicon savannah" that, by 2020, would create 100,000 jobs and add 2% to GDP. Three years and many missed deadlines later, there is still far more evidence of savannah than silicon.

By contrast, Tatu City, on the northern outskirts of Kenya's capital, Nairobi, is flourishing. Some 23,750 people already live, study or work there and 78 businesses have made it home. Moderna, an American drugmaker, is opening a \$500m vaccine manufacturing facility, its first in Africa. Zhende Medical, a Chinese medical-supplies manufacturer, is also setting up shop.

Tatu and Konza were conceived at the same time. Each, at roughly 5,000 acres, is of a similar size. Both aspire to house populations of more than 200,000 people. And both have been designated Special Economic Zones (SEZs), meaning that the businesses they house are eligible for tax benefits and other incentives. Why is one more likely to succeed than other? The answer lies not in their similarities, but in their differences, and these provide lessons for other developments in Africa.

The first is ownership. Konza's proprietor is the state. Tatu City's is Rendeavour, a big private urban land developer. During Konza's troubled existence promised government funding has failed to materialise while politically connected bigwigs have been accused of cashing in on the project,

spooking potential clients. Initiatives led by the private sector, however, are disciplined by the market, says Kurtis Lockhart, the executive director of the Charter Cities Institute: "If they don't make it work, they go out of business."

Second, location matters. Shenzhen succeeded in part because it was an outpost of Hong Kong. Likewise, Tatu, some 20km north of central Nairobi, is better plugged into the capital and its labour market. CCI Global, a big African outsourcing firm, is building a 5,000-seat call centre in Tatu, partly because the development is close to Nairobi's densely populated northern suburbs and two nearby universities, says its Kenya director, Rishi Jatania. Konza, by contrast, sits in splendid isolation about 80km south-east of Nairobi on the Athi Plains, where you are more likely to see a giraffe than a human being.

Put off by potholes

Infrastructure matters too, in a country where such things are often unreliable, Tatu City boasts its own water supply, energy grid and internet network. Konza's management seem much more airy-fairy when asked about such matters, grumble potential tenants touring the site. Tatu's planners eschew grandiose visions, preferring to grow organically and in response to demand. "You have to incubate a city," says Dean Landy, Rendeavour's head of urban planning and design. "A lot of megacities try to build everything at once."

Finally, the rule of law must prevail inside new ecosystems. Tatu City's land ownership is transparent. Konza's, until recently, was not. Many residents welcome Tatu City's regulated environment. Lawrence Njagi, a publisher, moved to Tatu after houses near his old home were turned into bars. Strict building rules in Tatu make a repeat unlikely. "Living here

gives me peace of mind and predictability about what my neighbour will do," he says.

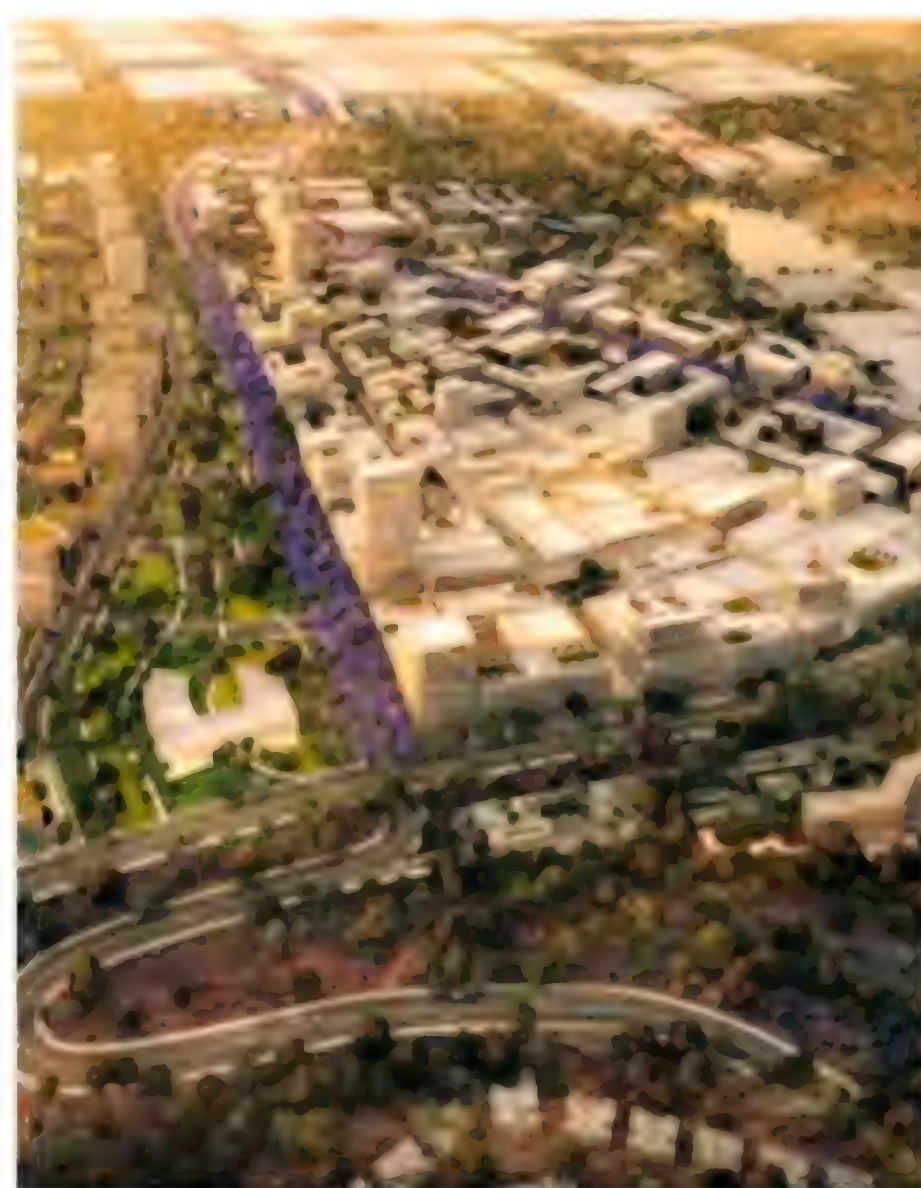
Mr Njagi puts his finger on what many believe is the key factor that determines success. Tatu works because it has the freedom to set its own rules. It is more than just an SEZ, a concept that has mostly underwhelmed in Africa. Experts categorise it instead as a "charter city", a loosely defined term that in essence describes an urban development with enough freedom to bypass weak state institutions and shape its own governance.

In a state like Kenya, where property rights are flimsy and bureaucracy arbitrary, Tatu City offers comforting predictability. It is a sort of haven in the jungle. Nairobi is notorious for its crime, but Tatu, for the moment, is safe. The barred windows ubiquitous on houses elsewhere in Nairobi are not yet in evidence here. Freewheeling Nairobi types who venture into the development can initially be aghast to see speed limits strictly enforced. Rule-breakers even have their wheels clamped. A strict no-littering policy means Tatu's streets, compared with the rest of the metropolis, are eerily clean. "We are like Singapore," jokes Stephen Jennings, Rendeavour's CEO.

No new city will directly answer the needs of Africa's urban poor. Some do not even pretend to. Since the average price of a property at Eko Atlantic, a swish new city development being built on the outskirts of Lagos, is \$415,000, it "caters only to the upper echelon of the upper echelon", notes Mr Lockhart of the Charter Cities Institute. Tatu City aims to be more inclusive. One-bedroom flats in its cheaper districts sell for \$34,000. Such a price will still be unaffordable for most Kenyans. Yet the point of charter cities is not to help the poorest directly, but indirectly. Strong governance, coupled with fiscal incentives, are intended to attract investment, the benefits of which will ripple through the economy.

Kenya has done much that is worth emulating. Its courts have proved independent enough to see off politically connected bigwigs wanting a share of the Tatu pie. Above all, it has legislation robust and forward-thinking enough to give Tatu the space it needs to be a genuine charter city.

In much of Africa laws passed in the 1990s with export-processing zones in mind are becoming outdated. Today's cities have far greater potential than the narrow industrial sites once envisaged. Updating those laws requires much greater co-ordination between government agencies, meaning there is "potential surface area" for corruption to occur, notes Preston Martin, the president of the Adrianople Group, an advisory firm. Getting those laws right, however, could make a world of difference. If African governments want new cities to work, they need to give the developers more of a free hand. ■



If you dream it, can you build it?

**The
Economist**

**SPECIAL
REPORT:**

Philanthropy

→ January 13th 2024

3 No-strings giving

5 Power to the people

6 Giving directly

7 Better for donors, too

9 Asian values

11 Effective altruism

12 Many ways forward



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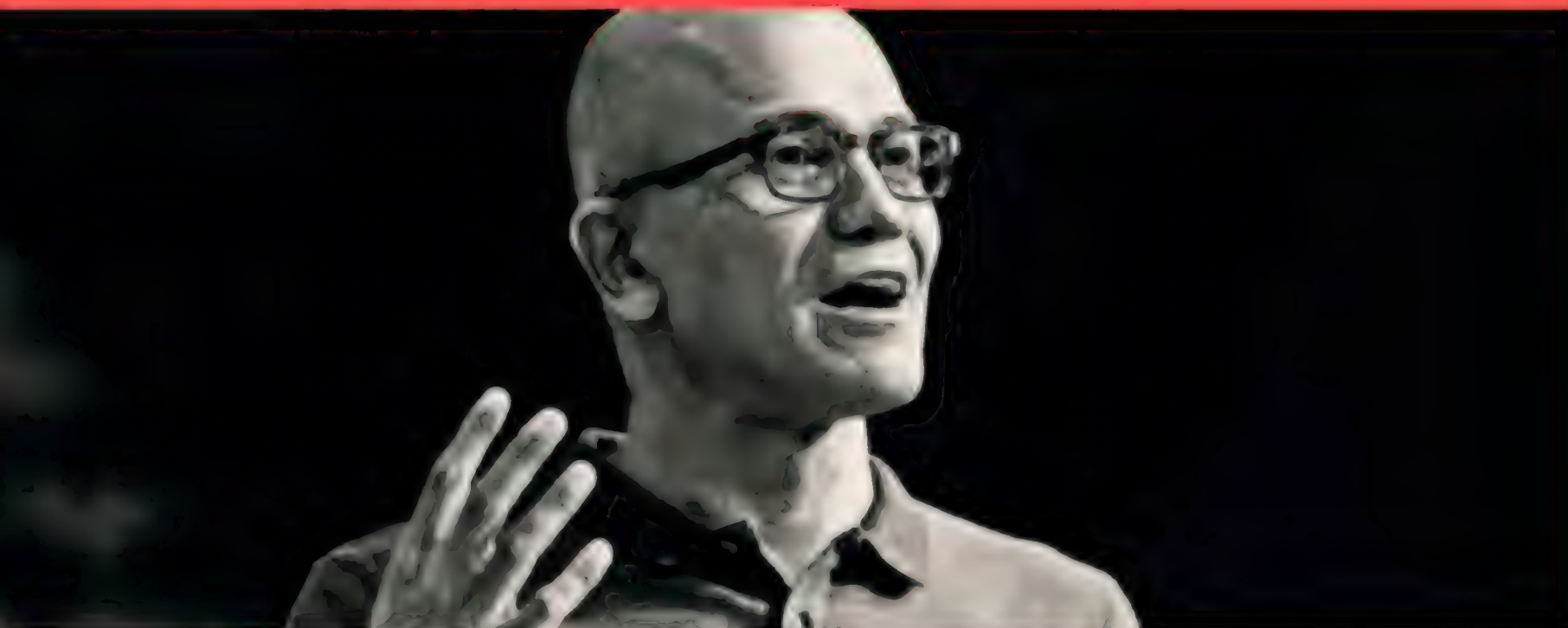


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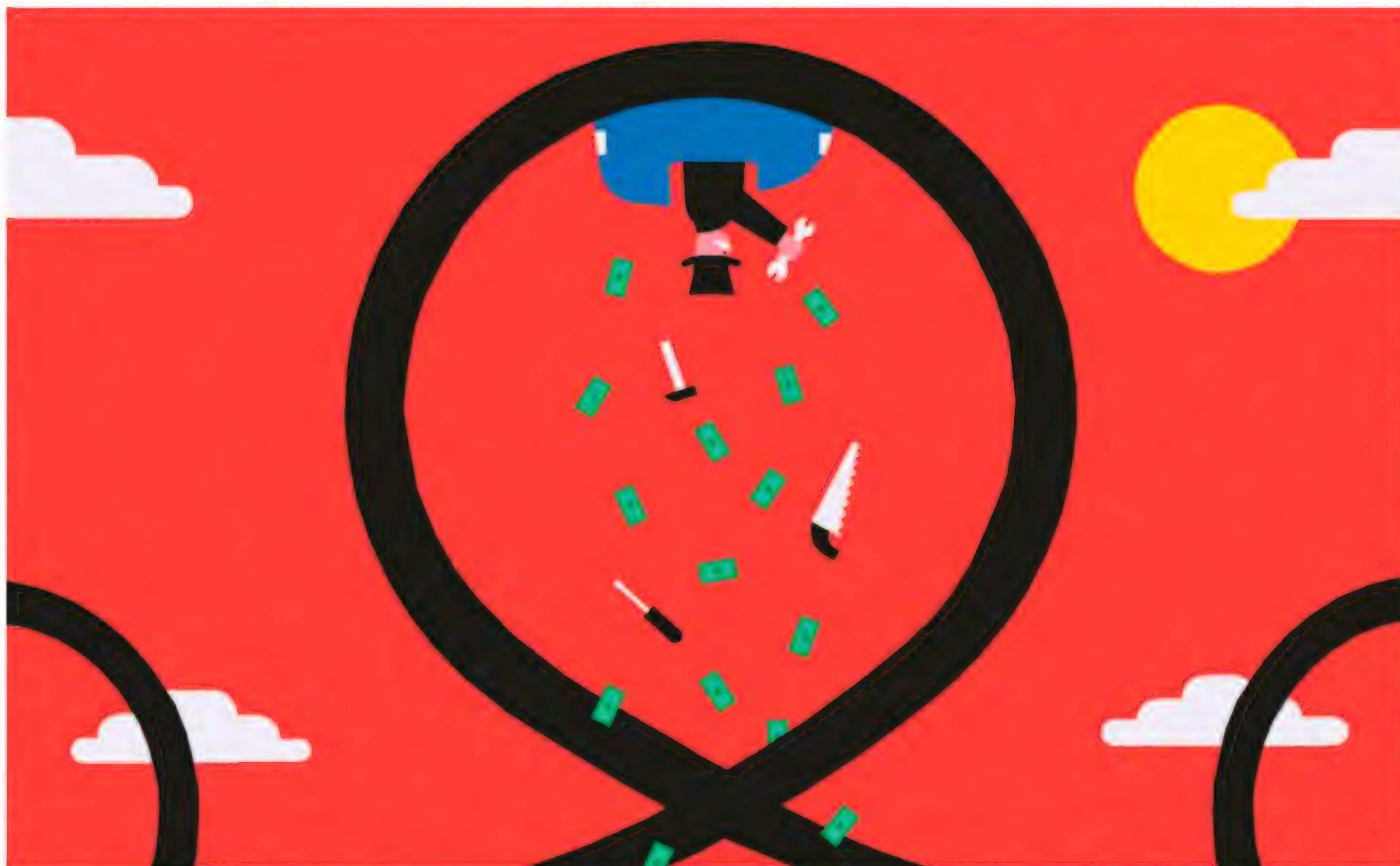
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**The
Economist**



Move fast and mend things

Some of the super-rich are experimenting with new approaches to philanthropy. They are hoping to get money to the needy faster, Avantika Chilkoti reports

A NUDGE IS not always enough to force change within an industry. Sometimes a series of forceful shoves is required. In the rarified world of Western philanthropy, the shoves began in 2020. The covid-19 pandemic, protests for racial justice across America that summer and the outflow of refugees from Ukraine starting in early 2022 created a new urgency around charitable giving and revealed failings in how it worked. Donors began to consider how they could disburse money faster and with more impact.

Just as the storm of global events was raging, a poster child for the new movement emerged. MacKenzie Scott received a 4% stake in Amazon when she and its founder, Jeff Bezos, divorced in 2019. It was worth \$38bn. In the same year she announced that she would give the money away “until the safe is empty”. As global problems spread in 2020, Ms Scott started handing out big grants, to organisations in America and across the world, with no strings attached. Without making any big declaration or setting up a charitable foundation, the quiet billionaire has since shelled out \$16.5bn. For comparison, Chuck Feeney, an American duty-free tycoon who was one of the most generous philanthropists of recent times, had given out \$8bn by the time of his death in October. Andrew Carnegie, a 19th-century industrialist, gave away \$350m, worth \$6.2bn today.

The reason Ms Scott could give so much so quickly is that she did away with the hoop-jumping and form-filling that have long defined philanthropy, especially for the past 20 years. There was

no lengthy application process to receive a grant from her. She contracted an independent firm to help her with strategy, do due diligence to check up on the NGOs, and then donate the money. Crucially, she decided not to police every decision recipients made in the name of monitoring and evaluation.

This kind of “no-strings giving” is not completely new. The William and Flora Hewlett Foundation, set up by a tech tycoon, has long given “unrestricted” grants that do not specify how they must be used. Since 2015 the Ford Foundation has put \$2bn into its Building Institutions and Networks (BUILD) programme, which hands recipients five years of funding, including a chunk of money dedicated to investments in the organisations themselves.

But Ms Scott is leading a group of new big-ticket donors applying the strategy at scale and transforming the relationship between wealthy donors and the charities they fund. Since 2020, Jack Dorsey, the co-founder of Twitter and Square, has put \$1.5bn into his fund, Start Small, and dished out a big chunk of it, largely in unrestricted grants. Brian Acton and his wife, Tegan, who came into their wealth after Mr Acton co-founded WhatsApp, give out tens of millions of dollars every year with a similar no-strings approach through their group, Wildcard Giving.

In many ways, this new no-strings approach is a reaction to the approach, known as “philanthrocapitalism”, that has dominated the giving industry since the turn of the millennium. It aimed to bring the discipline of the market and management practices ►►

from business to the non-profit sector. At that time, there was a hope that the rich were going to change the world. Bono and Bob Geldof, a pair of activist rock stars, were making philanthropy cool. The Gates Foundation, which now gives more money every year than many rich governments spend on foreign aid, had just been born. When the founders of Google took the firm public, they promised to put 1% of profits and 1% of equity into doing good.

Businesspeople promised to revolutionise the industry by approaching giving like for-profit investment. Foundations helped craft projects for NGOs to deliver, pushing them to measure impact, whether counting mosquito nets or quantifying changed attitudes to women. The logical framework, or “logframe”, a grid managers use to plot a project, became a crucial planning tool, and “key performance indicators” the new measure for success.

By the mid-2000s the strategy had become the dominant approach within philanthropy. It developed its own scriptures, including a book by Matthew Bishop, a former reporter at this newspaper. The subtitle to its first edition was, “How the rich can save the world and why we should let them.” The new approach achieved much. The Bill & Melinda Gates Foundation, for instance, developed a reputation for efficient, data-driven grant-making, and poured billions of dollars into eradicating diseases such as polio. Thanks, in large part, to its efforts, Africa was declared free of wild poliovirus in 2020. The foundation’s efforts to tackle malaria and improve sanitation have saved countless lives.

Too much process

However, in its attempts to measure the good it was doing, philanthrocapitalism began to tie up charities in bureaucracy; it ended up not doing as much good as it had hoped. In the face of urgent global need, in the years before the pandemic a dissatisfaction emerged among the big foundations handing out money, the NGOs receiving it and many experts looking on.

Andrew Serazin, head of Templeton World Charity Foundation, a big donor, says there is an obsession with process, paperwork and generally putting a number on everything, and the whole industry has a severe case of “logframe-itis”. Rob Reich at Stanford University says philanthropic funds are a sort of “risk capital” and when philanthropists make their giving about risk-reward ratios, they “undercut the distinctive thing philanthropic assets are able to bring to society”. Rohini Nilekani, an Indian philanthropist, believes recipients, not funders, are best placed to decide how funds are spent. “I don’t see how you can sit in your plush foundation office and think you understand what is needed in a local context.”

Many former supporters have now accepted that making the world a better place differs greatly from the business of making money. In the market, self-interest focuses minds, competition means bad ideas do not thrive, and resources are naturally drawn

Loads of money

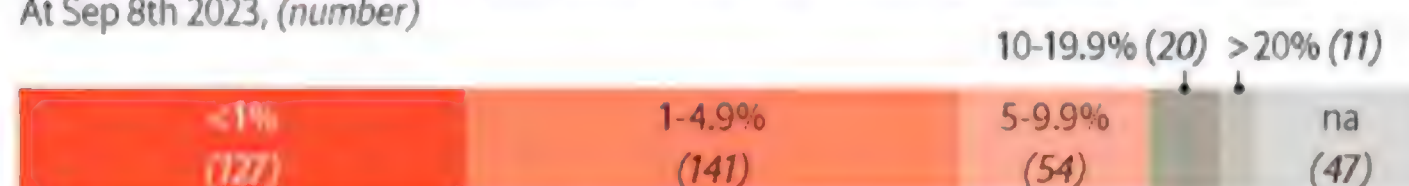
Number of billionaires, by country

At Jan 4th 2024



United States, 400 richest people, by share of wealth given away†

At Sep 8th 2023, (number)



Source: Forbes. *Includes Hong Kong. †Estimated lifetime giving as % of lifetime giving plus 2023 net worth

“You just start writing cheques, man”
—Tegan Acton

where the pay-offs are largest.

But, in philanthropy, donors rarely operate on the basis of rational judgment. People who see a problem up close have ideas about how it might be solved. They may have personal experience of it or personal attachment to the cause. They often work together, rather than in competition. And NGOs do not operate in an efficient market. There is no single metric for a charity’s success comparable to profit in

business. Charities rarely go under. “This is an environment that fundamentally differs from the market-based economy,” says Harvey Fineberg, president of the Gordon and Betty Moore Foundation, set up in 2000 by the co-founder of Intel and his wife. “It is based on partnership, rather than rivalry.”

On top of that, the surge in giving that the philanthrocapitalists foresaw never emerged, either among the wealthy or ordinary givers. The rich are disproportionately important in philanthropy. In America “micro” donors, who give \$100 or less, make up over 60% of all givers but only 3% of charitable dollars, according to the Fundraising Effectiveness Project, a data provider. Big donors, who give \$50,000 or more, make up just 0.2% of all donors but they contribute over 47% by value.

Over the past two decades, the rich have grown richer. A booming tech sector, in particular, has minted billionaires in their 20s and 30s across the world. As of January 4th 2024 there were 2,562 billionaires worldwide, including 746 in America, 470 in China and 180 in India. The total wealth of the 400 richest Americans, according to Forbes, a business magazine, rose from \$955bn in 2003 (worth \$1.6trn today) to \$4.5trn in 2023.

Yet global giving remains tiny. Citigroup, a bank, estimates the value of assets held by the philanthropic sector to be \$2.4trn, set against \$112trn in assets under management in wider capital markets. The share of ordinary Americans giving to charity dropped from two-thirds in 2000 to half in 2018, the latest year for which data are available. Among the super-rich, the pace of giving has not kept up with wealth creation. Forbes estimates that those 400 richest Americans in 2023 have given away less than 6% of their combined current net worth. Just 11 of the 400 have given more than 20% of their wealth (see chart)—including Ms Scott, George Soros, a financier, and Jeff Skoll, former boss of eBay—and 127 have given less than 1%. In 2020 those figures were 10 and 127.

Even among those who plan to do good, the same pattern holds. The Institute for Policy Studies, an American think-tank, led one study of people who have signed the Giving Pledge, a promise to give away the majority of their fortunes in their lifetimes. It found that the combined assets held by the 73 living pledgers who were billionaires in 2010 rose from \$348bn to \$828bn in 2022.

Now, the hope is that the new no-strings approach—which some call “trust-based philanthropy”—could increase the pace and efficacy of giving in a way that philanthrocapitalism did not. Its aim is to do that by getting money out the door faster, and shifting decision-making power from donors to charities.

This special report looks at a variety of alternative approaches to giving that are now emerging, and not just in the Western world. Chief among them is the no-strings grant-making that took off during the pandemic. The culture has already begun to change. The new canonical text is by Anand Giridharadas, an American author, entitled “Winners Take All: The Elite Charade of Changing the World” in which he calls the old way of giving a “paradox of elite change-making that somehow seems to keep things the same”. When Ms Acton was asked how to set about giving money away over a short period of time, she summed up the new zeitgeist, “You just start writing cheques, man.” ■

NGOs

Power to the people

A new model of no-strings philanthropy is giving non-profit organisations decision-making power—and room to breathe

YUKABETH KIDENDA, chief executive of Teach for Kenya, a non-profit group that trains bright young graduates to teach in low-income schools, has seen her fair share of controlling philanthropists. One donor asked for a hard copy of the name, identity document and signature of each of the 750 teachers trained that year. To Ms Kidenda it is a reflection of a general suspicion among donors, who worry their funds will be misspent or stolen.

Recently, Ms Kidenda has seen a few philanthropists experimenting with the very different no-strings approach. The Segal Family Foundation (SFF), a big American donor focused on east Africa, has contributed unrestricted funds to Teach for Kenya and attempted to reduce the administrative burden on the charity. It asks Ms Kidenda to fill out a short form online every year with straightforward data, like the number of teachers trained. That, she believes, is a much better way to do philanthropy. “If you want to give, give,” she says. “Don’t give and then act like you feel bad about it or mistrust.”

For generations, philanthropy has been characterised by mistrust of the charity sector and a general attitude of paternalism. Non-profit organisations have had to write lengthy applications for grants. Those lucky enough to get funding have received money ring-fenced for specific projects. An onerous process of monitoring and evaluation has followed, which has meant recipients spending a lot of time and money assembling impact assessments and budgets, all in the specific format that each donor prescribes.

This top-down approach has sometimes caused problems for the charity sector. It can result in a pattern known in the industry as the “non-profit starvation cycle”. The cycle begins with funders who have unrealistic expectations of how much it costs to run an NGO. Under pressure to keep costs low, non-profit bosses cut back on operational costs, like hiring staff, training them, setting up data-collection systems and investing in IT. As a result of scrimping and saving, the budgets and impact assessments that NGOs send to donors are patchy at best, misleading at worst, and the cycle continues.

No-strings giving is still not yet as widespread in poorer countries such as Kenya as it is in America. In a survey of American foundation leaders in 2021 by the Centre for Effective Philanthropy (CEP), a research organisation, almost every respondent said they had changed the way they work during the pandemic (see chart). More than three-quarters reported changing their application processes to reduce the burden on recipients. The same share said they had made the reporting process less cumbersome. Over 60% were providing more money in the form of unrestricted grants.

In part, no-strings giving is about making fundraising less time-consuming and less painful for recipients. Some big foundations are now running two-tier application processes, whereby non-profit organi-

sations submit a short proposal and only those that make the cut fill in a full application. That saves groups from wasting time on unsuccessful bids. The Skoll Foundation, started by Jeff Skoll, formerly boss of eBay, is still asking recipients for progress reports but no longer prescribes what goes in them. “It’s all stuff the non-profit community has been begging for, for decades,” says Fred Blackwell, head of the San Francisco Foundation, a big funder.

By making unrestricted gifts, no-strings donors are handing non-profit organisations the power to decide for themselves how funds are best spent. Jennifer Steele is head of Meals on Wheels

San Francisco, a charity that received money from both MacKenzie Scott and Jack Dorsey in 2020. “I can’t tell you how freeing it was,” she says, “to feel trusted and to feel respected.”

To understand what they do with the money, consider Ms Scott’s big gifts. In 2022 the CEP (which itself received \$10m from her) surveyed over 270 groups that received Ms Scott’s money. It was clear these organisations had been suffering from what CEP analysts call a “scarcity mindset” and desperately needed to invest in their own organisations.

Some 90% of respondents said they were using or planning to use some of the money to improve financial stability by, for instance, paying for fundraising activities or building up financial reserves. Over 70% said they would spend on hiring and almost 60% on IT infrastructure.

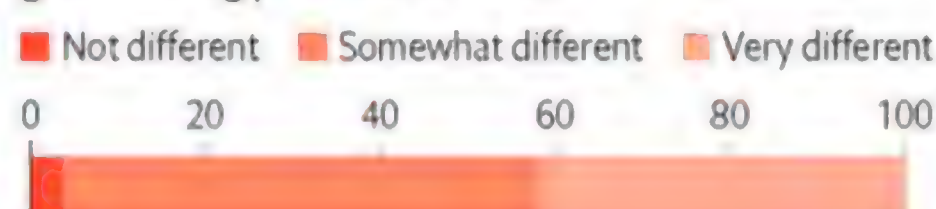
It is no bad thing that recipients are ►►



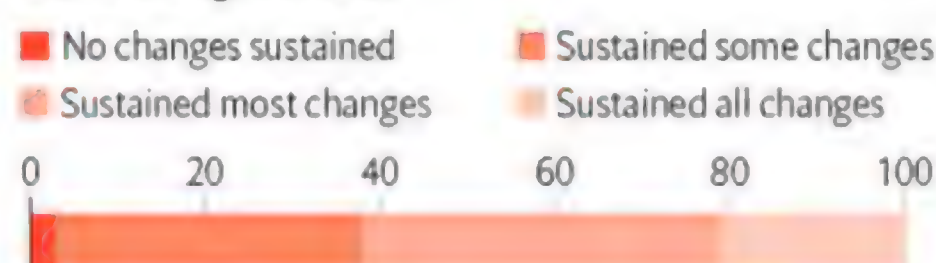
Doing it differently

United States, surveys of foundation leaders
2021, % responding

Extent to which foundations changed their
grantmaking practices in 2020



Extent to which foundations sustained
those changes in 2021



Source: Centre for Effective Philanthropy

▶ spending more on overheads. In the past, many philanthropists have been willing to pay for a charity to roll out projects, such as building a new school or handing out food. But few have been willing to fund the staff who plan those projects, their training or their laptops. Academic research has shown that groups that spend more on overheads often deliver better results. Plus, as Nancy Lindborg, chief executive of the David and Lucile Packard Foundation, says, unrestricted grants allow non-profit organisations with experience on the ground to craft projects where they see need, rather than simply rolling out projects that donors dream up. "Sometimes they have had to contort themselves to meet donor objectives," Ms Lindborg adds.

There is reason to worry, however, about large sums of money landing in a charity's bank account with little warning. An article in the *Stanford Social Innovation Review* entitled "Riding the Wave of Abundance" identifies two big risks. The first is "performance failure", where an organisation does not "put the additional funds to good use, account for them, stay responsive to funders and ben-

Groups that spend more on overheads deliver better results

time, Ms Ali set about building an endowment by investing in apartments around Nairobi, the Kenyan capital, and land in Somalia. (So far, fortunately, both have appreciated in value.) Of groups that are caught off guard when a one-off gift runs out, she says, "I guess they have never been hungry."

On the donors' end, the initial reaction among old-school givers to handing over large sums of money with few conditions or

efficiencies". The second is "sustainability", where a recipient flounders as soon as the additional funding runs out. New staff need to be paid every month. High-end tech needs maintenance.

A lot of that, according to Degan Ali of Adeso, a humanitarian group based in Kenya, comes down to proper planning by charity bosses. When Adeso received \$5m from Ms Scott in 2021, a huge sum for a group with an annual budget of \$2m at the

Cut out the middle man

GiveDirectly does what it says on the tin

THERE ARE signs of new wealth all around Baringo county in western Kenya. Water tanks are propped up against corrugated-iron homes. A few young men have bought motorcycles and run a *boda-boda* taxi service in the area. The local goat market is doing a roaring trade.

This is what happens when GiveDirectly, a New York-based NGO, comes to town. The group puts donations straight into the hands of the poor, using electronic payment services such as M-Pesa, a Kenyan mobile-money system, allowing them to buy goods and services they could not otherwise afford. The organisation identifies needy households using door-to-door interviews, satellite data to spot cheap housing, and artificial intelligence to study mobile-phone usage.

The attraction of GiveDirectly is its scalability. Once payment systems are set up in a community, the charity can ramp up handouts as it sees fit. GiveDirectly has dished out over \$700m since 2009 in poor countries like Kenya, and also in America. Families in Baringo county, for example, have received a total of 110,000 Kenyan shillings (\$738) over three transfers, a mighty sum in a country where about a quarter of the population lives on less than \$2.15 per day. This simple model is disrupting the traditional charity sector by cutting out the NGO middle man.

Many studies have shown that unconditional cash transfers raise income levels and lead to improvements in other poverty indicators, like health, nutrition and education. The first such study, pub-

lished in 2016, found that, in homes that received a transfer, the number of children going without food for a day fell by over a third and livestock holdings rose by half. Another study in 2022 led by scholars at the University of California, Berkeley, calculated that, for every \$1,000 given to Kenyan households, the surrounding economy grew by \$2,500, without significantly pushing up prices in local markets.

There are, of course, risks to free money. GiveDirectly staff call recipients to ask how they are spending it. They keep in touch with village chiefs, who report cases of waste. Where necessary, they organise town-hall meetings to encourage productive uses of the money.

In 2023 GiveDirectly reported that the group's own staff had stolen \$900,000

over six months from one of its projects in the Democratic Republic of the Congo. It changed the rules that had allowed a complex cartel to form within its ranks.

There are also questions of what happens when the handouts stop. Here, the evidence is patchier. But Rory Stewart, a British former MP who used to run GiveDirectly and is now an adviser to it, points out that the protection a vaccination provides against disease diminishes over time, too. That is not an argument against jobs, he argues.

Poor households know they need to make handouts last. In Baringo county, a group of GiveDirectly recipients has started "table banking". Each puts 3,000 shillings into a kitty every month. Anyone in the group can then borrow. One man took a loan to buy shelves for his store. A woman did so to buy eggs she sold on for a profit. Borrowers are required to return the cash in a month with 10% interest. The group splits the profit. Long after the handouts ended, the community bank continues.

Unconditional cash transfers are not enough on their own. It is no good giving a sick man cash if there is no hospital for him to go to, points out Danny Sriskandarajah, former head of Oxfam GB, an NGO. Donors are right to spend on advocacy, too, given many of the biggest improvements in the lives of the poor are triggered by policy change. "If you believe in the science of delivery, cash is great," he says. "But if you believe in the art of transformation, it is not enough."



► checks can be alarm. Unrestricted gifts can lead to scarce funding being misspent. Done well, however, a no-strings approach to giving does not mean “spray and pray”. “Trust-based philanthropy starts with doing your due diligence on an organisation,” says Nicole Taylor, head of the Silicon Valley Community Foundation. “You understand what they are doing, who they are supporting, and the impact they make. If that resonates, then you fund them.”

Ms Scott’s giving during the pandemic, for example, was carefully considered. She hired the Bridgespan Group, a non-profit consulting firm spun out of Bain & Company, to help her develop a strategy and do due diligence on NGOs working on the topics she cares about, such as race relations and women’s empowerment. It was like contracting the work done by foundation staff to experienced outsiders.

For her next round, Ms Scott is working with Lever for Change, a group that is helping to run an open call to find 250 “community-led, community-focused” organisations in America and hand them \$1m each. By taking applications rather than selecting recipients, the process is open to smaller, less well-known groups.

According to the CEP survey, 44% of non-profit leaders who received funding from Ms Scott were interviewed in advance and 28% were asked for financial reports. Though that may not sound like a high percentage, there are lots of ways to check up on charities today. Recipients of Ms Scott’s funds have mostly been well-known groups that other big donors had checked, funded and received reports from for years. Besides, as Heather Grady of Rockefeller Philanthropy Advisors points out, many big charities publish annual strategy documents and budgets online, so donors don’t need to bother them for personalised reports. “Trust-based giving,” she says, “is something that tends to come in more with organisations that already have a track record.”

That might be the real flaw in no-strings giving. If it is based upon trusting the recipient, lesser-known groups may lose out. Teach for Kenya and Adeso are rare examples of organisations based in poorer countries that have received big no-strings grants. It helps that both groups are led by women who speak good English, know how the cogs of Western philanthropy turn and how to work a room.

Adeso had received funding from the Gates Foundation and the Ford Foundation before Ms Scott came knocking. Ms Kidenda worries that organisations based in the developing world are often the least trusted, simply because they are far away and unknown. “Almost every process is made more difficult for us,” she adds.

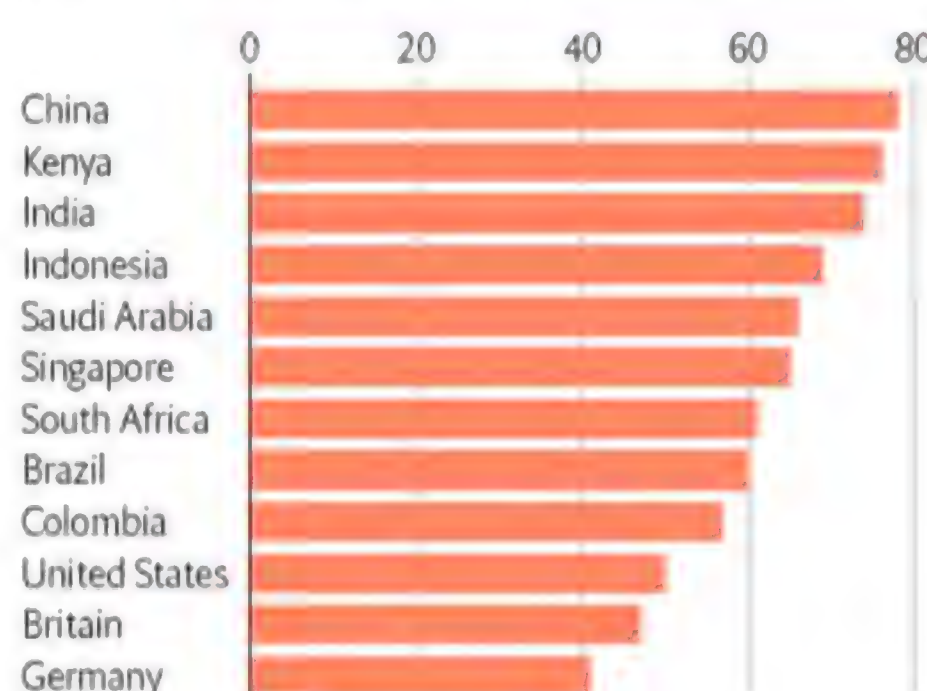
Think global, act local

If “trust-based” giving is a buzzword among donors, there is another word, too: “localisation”. Big-ticket donors have long made large grants to international organisations they know well, relying on them to re-grant money to smaller groups doing good work on the ground. The problem with that strategy is twofold. First, it is expensive. Middle-men take a cut of the funding. Hiring staff and paying for offices in the rich world means international non-profit groups are expensive contractors, too.

Second, it does not do much in the way of capacity building. In many poorer countries, like India or Kenya, there is now a vibrant civil society. And non-profit organisations on the ground want to work directly with big Western donors, to figure out their processes and build expertise in areas such as finance and compliance, so

Lack-of-trust fund

Selected countries, % responding that they trust NGOs to do what is right*, 2022



*Rating six or more on a nine-point scale
Source: Edelman Trust Barometer

they can win grants directly.

Now, as part of a broader effort to get closer to the problems they want to fix, donors are trying to hand money directly to local groups. By the CEP’s estimates, 43% of those Ms Scott has funded describe their geographic scale as local, and 35% describe it as national. Many recipients are community-led organisations in America. Western donors often struggle to identify groups doing good work on the ground in poor countries. Doing due diligence on them can be tricky, too.

The Mastercard Foundation is leading the way. In 2018 it set a target that by 2030 three-quarters of all its programme partners would be African. By mid-2023, 65% were, as well as 60% of the group’s funding, totalling around \$3.6bn. Spotting those organisations would be difficult for a

donor whose programme officers all sit in an office in Toronto. That is why 80% of the Mastercard Foundation’s staff, including its chief executive, Reeta Roy, are now based in Africa.

No-strings giving is, in part, about recognising that non-profit organisations know better than wealthy donors how money is best utilised. Localisation goes one step further, recognising that organisations based in a community and led by locals know best. Both strategies sound warm and fuzzy. In fact, their goal is to make grant-making more effective and more sustainable. “We are not doing it to be nice,” says Ms Roy. ■

Donors

Giving it away

Donors want a quicker, easier way to give. There is a growing industry trying to make it possible

PHILIPP MOHR sold his first software company to King, the maker of “Candy Crush Saga”, an online game, in 2014. He sold his second to Apple a few years later. The London-based entrepreneur has made a small fortune. Somewhere along the way, he met the team at Founders Pledge, a global non-profit group that pushes entrepreneurs to commit a share of their future earnings to philanthropy. If they sell their business and the money materialises, Founders Pledge can help them make good on their promise.

Just as Bridgespan, a consultancy, has helped several billionaires disburse money since the outset of the pandemic, Founders Pledge has allowed people like Mr Mohr to outsource a lot of the work that a private foundation would do. The group has a research team that produces detailed analysis on good causes, like climate change and education, and checks out potential recipients. It can set up funds for donors, take care of audits and process grants on their behalf.

The ultra-rich have plenty of excuses for not giving money away. One of the most common—that it requires a lot of time and effort—no longer holds. There have long been big-name consultancies, like Bridgespan, Rockefeller Philanthropy Advisors and Arabella Advisors, that specialise in philanthropy. One of the many benefits of philanthrocapitalism is that it has, over the past 20 years, created a whole ecosystem to help take the grunt work off ►►



► donors' hands, and that ecosystem is now being used by the no-strings crowd. Banks such as Goldman Sachs and UBS are offering rich clients philanthropy advisers as well as the usual suite of wealth managers and accountants. Donors' networks and boutique advisory firms have emerged, too. They do everything, from offering donor education to connecting big funders to each other. There are even firms that loan out staff with grant-making expertise. "At every pain point in the process there is someone you can outsource to," says Alexa Cortés Culwell, founder of Open Impact, a San Francisco-based adviser.

The first step for a fledgling philanthropist is to pick a vehicle through which to give. Donor-advised funds (DAF), a sort of savings account for charitable giving, are becoming popular, particularly in America. There was \$230bn in American DAFs at last count in 2022, according to the National Philanthropic Trust, a charity. That is still small compared with the \$1.2trn in private foundations. But the gap is closing fast (see chart on next page).

DAFs make giving quick and easy. An account can be set up within seconds. Funds

"There is less overhead, less duplication and less waste"
—David Goldberg

are managed by a non-profit group, often linked to a money manager, like Fidelity or Vanguard, or a community foundation. In exchange for a fee, usually 0.5-1.5% of assets, these "sponsors" take care of the back-end of grant-making, like audits and tax filings. They often share research on popular causes and create pooled funds to which donors can contribute. It helps that, whereas American foundations have to disburse 5% of assets every year, there is no pressure to spend down money in a DAF. "These are vehicles designed to make it so you just have to write a cheque," explains Thad Calabrese at New York University. "The mechanics of it all are taken care of."

Vehicular access

DAFs are just one option. Another is to establish a limited-liability company (LLC), and bundle giving to NGOs with for-profit investment and political advocacy. Donors who give via LLCs forgo charitable tax deductions but get flexibility in return. Meta's Mark Zuckerberg and his wife have, through their LLC, the Chan-Zuckerberg Initiative, been able to make venture investments in digital learning programmes, while also giving grants to education charities, biomedical research and more. Laurene Powell Jobs, the widow of Apple's Steve Jobs, has, through Emerson Collective, her LLC, funded the *Atlantic*, a for-profit magazine, and *Mother Jones*, a non-profit one. In an example of the ways in which donors mix and match different vehicles, Ms Powell Jobs also set up the Waverley Street Foundation in 2021 as a "spend-down fund" that will put \$3.5bn into fighting climate change over a ten-year period.

Once a donor has chosen a financial vehicle, intermediaries set about helping them choose projects to support. In the case of Mr Mohr, Founders Pledge helped him set up a DAF and identified malaria as a cause he cares about. The serial entrepreneur, who is busy building his third business, is now funding research into the disease. The appeal of Founders Pledge, Mr Mohr explains, is that donors can be as hands-on or hands-off as they like.

Intermediaries don't just take work off the hands of busy donors. The idea, according to David Goldberg, who created Founders Pledge, is to share the work, so that there are no longer countless private foundations, all with their own team, doing their own research and running their own back-end. "There is less overhead, less duplication and less waste," he says.

Donors work together, too. Lever for Change is a group that helps donors run open calls to find organisations they want to fund through an application process, not simply by selection. Once a client has taken their pick from a shortlist of applicants, it markets the runners-up to other donors in what chief executive, Cecilia Conrad, calls a "secondary market", sharing the due diligence for free. For example, Lever for Change ran the \$40m Equality Can't Wait challenge for Melinda French Gates and other donors in 2020, looking for new ideas on women's empowerment in America. Once it had selected the recipients, it created a microsite with information on the other applicants, including video inter-►

► views with non-profit leaders and data on their impact.

Since it was set up in 2019, Lever for Change has dished out \$730m via its challenges and another \$934m on that secondary market. "I have never had a donor who has sponsored one of our challenges not want us to share," says Ms Conrad.

Donors are also increasingly working more formally with each other via collaborative platforms. Some get philanthropists together to share research on a topic or hear pitches from potential recipients. Others go a step further and pool funds. There are over 400 such groups worldwide, half of which were set up since 2010.

Two donor collaborations stand out for their scale. Blue Meridian Partners, set up in 2016, has raised \$4bn from the likes of Steve Ballmer, former head of Microsoft, and Sergey Brin, co-founder of Google. Co-Impact, started a year later, has raised \$800m and also has a starry roster. Both have highly qualified staff who aggregate capital, set strategy and re-grant money. Donors can get involved as little or as much as they like.

According to Olivia Leland, founder of Co-Impact, individual donors with one or two advisers want to come together because they are looking for a "lighter touch" way to give, whereas big foundations with hundreds of staff like joining together because they believe that, with big issues like poverty and women's empowerment, "You can't go it alone."

Wealth is wasted on the young

When donors collaborate they share work but also share risk. Many "donor collaboratives" are experimenting with a new sort of no-strings giving. According to a survey of 200 such groups by Bridgespan, almost half provide unrestricted funding, which gives NGOs discretion to spend money as they like. That is still relatively unusual among foundations. Nearly 40% take a participatory approach to grant-making, involving non-profit leaders and community groups rather than relying on their own internal committee to decide which organisations should receive their funds. Devolving decision-making power in this way is still rare among private foundations, too.

All this means wealthy donors can get on with their lives without getting bogged down in the details of giving. That fits the lifestyle of busy tycoons, many of whom are coming into fortunes while their careers are in full swing. When Bill Gates, the founder of Microsoft, became a billionaire at the age of 31 in the late 1980s, he was the youngest person in history to join the so-called three-comma club. Today, there are 15 billionaires aged 30 or under. There are too many millionaires in their teens and 20s to count. For many, like Mr Mohr, the last thing they want is another big organisation and lots more employees to manage. ■

Just write the cheque

United States, total assets, \$trn



Sources: NPT; Foundation Mark

Beyond the West

Asian values

Philanthropy in Asia is becoming more professional, but not necessarily more Western

WITHIN GLOBAL philanthropy, the spotlight generally falls on the wealthy West. It is tycoons from the rich world who are lauded for giving away vast sums. The most talked-about trends in giving are set in America, in particular. But with rapid economic growth, a new generation of wealthy donors is emerging in the developing world, too, and nowhere more so than in Asia.

Philanthropy in Asia is very different from its Western counterpart. As in all societies, there is an age-old culture of generosity across the region. Most research into philanthropy defines it as formal financial gifts to registered charities and, by that definition, America is the most generous nation on Earth. But a lot of philanthropy in Asia, and the rest of the developing world, is informal. The Charities Aid Foundation, a British group, runs surveys to find the world's most generous countries. It measures a combination of whether people donate money (in whatever quantity), spend time volunteering with organisations and lend strangers a helping hand. By that broader definition of giving, Indonesia is the world's most generous country. Myanmar is in the top ten, too (as are several African countries and the United States).

Such small-scale, informal generosity continues to provide vital assistance within poor communities across the region. But an economic boom has now created a new class of super-rich. There are 896 billionaires in Asia, more than any other part of the world (America has 746), with a combined \$3.4trn in assets. They have started to give in a much more formal way, and a younger generation is starting to shake things up, too.

Playing catch-up

A more strategic sort of giving, involving philanthropy professionals, a long-term lens and big ambitions of transforming society is gradually emerging. It differs, of course, between countries. Giving in India and much of South-East Asia, where there is a vibrant civil society, is different from China, where a communist state has long been expected to solve social ills and has left little room for independent philanthropy.

By any measure, however, organised philanthropy across Asia is on a much smaller scale than in the West. There are no comparable data on different countries. But one report by Bain & Company, a consultancy, and Dasra, a Mumbai-based NGO, estimates total private giving in India came to about \$13bn in the 2022 financial year. Researchers at the Chinese Academy of Social Sciences put total giving in China at about \$21bn in 2020. By contrast, in America, researchers at Indiana University estimate that, even after a post-covid decline, total giving came to almost \$500bn in 2022.

In Asia the lines between doing business, contributing through one's company to social causes and donating in a personal capacity are blurred. Where tycoons set up foundations, they often put a friend or relative at the helm. A general mistrust of non-profit groups—made worse by a string of high-profile scandals and poor marketing by cash-strapped charities—means donors prefer to execute projects themselves. The little grant-making that happens often involves gifts to non-profit groups that friends and business contacts recommend, and usually takes place within the local community.

Beyond the regional financial hubs of Hong Kong and Singa-►

► pore, which are fairly well-off societies with vast diaspora communities, Asian donors do not do much international philanthropy. Recent research, funded in part by the Gates Foundation, suggests that the percentage of total giving that is cross-border remains in single digits even in developed Asian markets, like Japan and South Korea. In India and China it is negligible. In the West, by contrast, many donate to the needy overseas.

Whereas many American philanthropists use their giving to hold the government to account, Asian donors often use gifts to curry favour. China is the most extreme example. Research by Harvard University shows that well-known funders give generously to government-affiliated foundations and align their giving with the Communist Party's policies. In the midst of a state crackdown on the technology sector in recent years, Alibaba, an e-commerce group, Tencent, the world's biggest gaming company, and other Chinese tech giants have dedicated billions of dollars to the party's "common prosperity" agenda.

That has led to giving in the region that Laurence Lien, co-founder of Asia Philanthropy Circle, a donors' group, describes as "too slow and too safe". In India, estimates from Bain and Dasra suggest the rich put 55% of their giving into education and health care, which are generally uncontroversial topics. There is a lot of bricks-and-mortar philanthropy, too. Over the years the Tata family, perhaps India's best-known philanthropists, have built hospi-

Asian philanthropy is "too slow and too safe"

—Laurence Lien

tals, universities and vocational training centres. Shiv Nadar, an IT billionaire and India's top donor, has built universities in Chennai and Delhi named after himself.

Now, though, a new generation wants to do things differently. A lot of Asian wealth is new money. A booming technology sector has minted first-generation billionaires. Some of the richest people in India, for example, started IT-services giants, like Infosys and HCL Technologies.

There is also old money in new hands. Atop the rich list in Indonesia, Thailand and Philippines are siblings—the Hartono, Chearavanont and Sy families, respectively—who have inherited sprawling conglomerates and are likely to pass them on to their children. Many in that younger generation have worked or studied abroad. They are returning home with new ideas about giving and an interest in causes, like women's rights and climate change, that their parents neglected.

Maryanna Abdo at the Centre for Evidence and Implementation, a research outfit with offices in Singapore, describes it as a move away from charity, a reactive sort of giving focused on meeting short-term need, and towards philanthropy, a more proactive giving that tries to find solutions to underlying problems. The new generation is up for giving more and hiring professionals who know about philanthropy to help them. One-off handouts to the needy on the doorstep are out. Strategic giving is in.

Donors are upping the pressure on each other to give more. In India, Nithin and Nikhil Kamath, two brothers behind Zerodha, a financial-services group, have committed \$100m to their Bangalore-based Rainmatter Foundation, which focuses on climate change. They have joined the Young India Philanthropic Pledge, which calls on Indians under 45 with a net worth of over 10bn rupees (\$120m) to commit to giving away a quarter of their wealth.

Governments are doing their part to encourage giving, too. In Singapore, a financial hub where many well-off Asians store their wealth, the government has used a series of tax incentives to promote the city-state as a centre for philanthropy. In India, big companies are legally required to spend at least 2% of after-tax profits on corporate social responsibility (CSR).

A lot of that spending is unambitious; car manufacturers giving to road safety and IT-services groups paying for digital-literacy programmes. But just last year, CSR was responsible for 262bn rupees from 20,800 companies being channelled into worthy causes of all kinds, a small but growing sum.

Asian fusion

A formal giving industry is gradually emerging. There are a handful of conferences on Asian philanthropy, and various annual reports that pick apart trends in the region. Funders' groups, like the Asia Philanthropy Circle and AVPN, bring donors together to discuss their giving and share due diligence on potential recipients.

The Grassroots, Resilience, Ownership and Wellness (GROW) Fund, led by EdelGive Foundation, the philanthropic arm of a Mumbai-based financial-services group, is being talked about as a model by donors across the world. It has raised money from big American donors, like the Gates Foundation and the MacArthur Foundation, as well as local funders. And, rather than dishing out sizeable chunks to well-known non-profit groups, it is identifying relatively small grassroots organisations to re-grant to, like the Dehradun-based Latika Roy Foundation, which works with people with developmental and other disabilities, and Nagpur-based Slum Soccer, which uses the beautiful game to keep street children in shape and out of trouble.

None of this is to say that giving in Asia is becoming West-►►



Nerds and cool kids

The “effective altruism” movement has always been louder than it is large

GIVING TO OTHERS is often prompted by emotion, compassion or personal connection. But one newish strand of Western philanthropy has made a name for itself by trying to do away with the emotional side of giving. “Effective altruism” is characterised by a particular reliance on data and logic.

The movement is the creation of three types of mega-nerd: Oxford University philosophers who came up with the name in 2011, New York hedge-fund analysts and Silicon Valley tech bros, who together refer to themselves as EAs. Before his arrest and conviction, Sam Bankman-Fried, the founder of FTX, a cryptocurrency exchange, was seen as the EAs’ model, embodying its credo of “earning to give”—choosing a lucrative career only to donate much of your income. Facebook’s co-founder Dustin Moskovitz is also a big backer.

Data, long important to philanthrocapitalism, are even more so for the EAs, who see themselves as a hyper-rational movement, not driven by emotion but by facts. Whereas large foundations might choose to focus on fighting malaria and then do a cost-benefit study, EAs would do the study before choosing what to focus on, to see where engagement has the highest chance of success.

The movement has not imploded with Mr Bankman-Fried. The Centre for Effective Altruism (CEA), a think-tank, runs conferences and online forums that still buzz with chatter. 80,000 Hours, a recruitment website run by the CEA recommending “high-impact” careers, has not seen visitor numbers drop. Devotees remain devoted. In a large survey by

Rethink Priorities, a research group, at the end of 2022, 84% said they are still likely to be involved in the movement in three years’ time. Many said they thought the community’s leaders had responded well to the scandal.

There has been soul-searching within the movement since well before the FTX scandal. It has focused on three main areas of fragility. First, the community has never been very big. It has probably never had more than 10,000 active members, mostly young, white men, many from elite universities. Alexander Berger, head of Open Philanthropy, the group that hands out money on behalf of Mr Moskovitz, says the effective-altruism community is still “marginal”.

Second, it has always relied on a few big financial backers. According to rough estimates on the 80,000 hours blog, over one-third of the hypothetical \$46bn com-

mitted in 2021 was down to Mr Bankman-Fried and his team at FTX. Almost half was attributable to Mr Moskovitz, who is now playing an even bigger role. Take GiveWell, an organisation that researches charities and recommends the most cost-effective ones. Its donor pool shrank in 2022, according to the group’s own data. But total donations still ticked up that year, thanks to large gifts from Open Philanthropy.

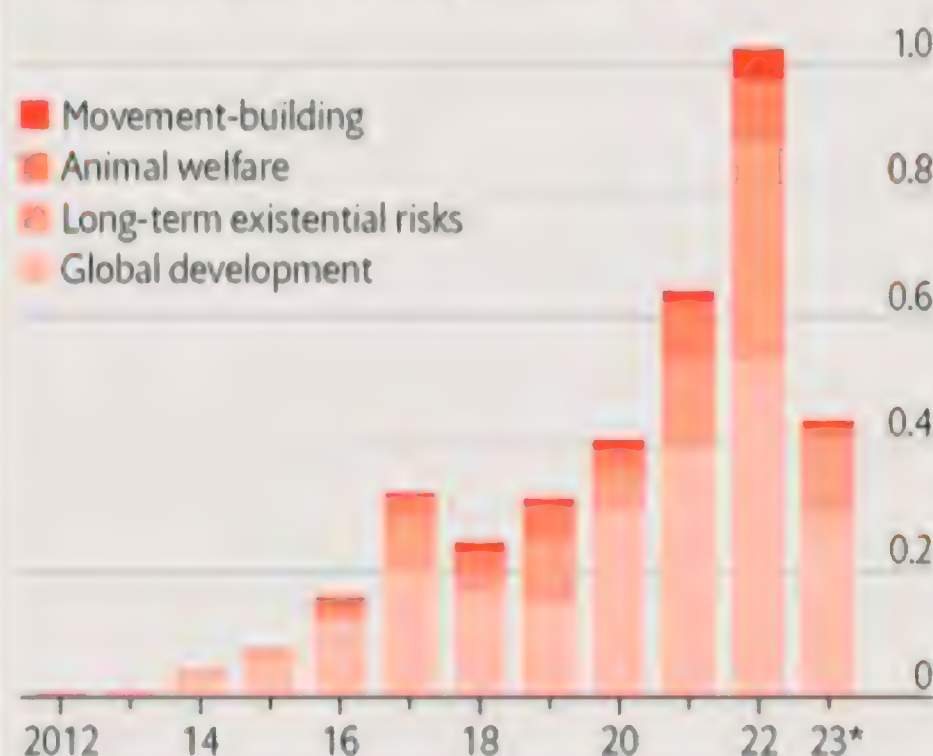
There is a third thing, too. There are broader divisions about strategy, with some supporters determined to focus on improving lives today, while others are looking more at the long term and arguing for putting money into tackling far-flung risks. Even the most devoted EAs recognise the limits of data. “In a math problem you can see whether or not the answer is right,” acknowledges Elie Hassenfeld, co-founder of GiveWell. “In what we’re doing, some of it is quantification but a lot of it is judgment.”

Yet still, with big donors locked in debate over alternative approaches to giving, the movement has shown that novice philanthropists can mix and match. They apply data-driven analysis to maximising impact on issues like tackling malaria, just as the philanthrocapitalists do. But they also take pride in giving recipients decision-making power and getting money out the door fast, in line with the newer “no-strings” model.

It is not clear yet whether the movement will continue to grow or fade into insignificance. Perhaps its biggest contribution might be its adherents’ willingness to ask big questions and challenge conventional approaches. That is exactly what the giving industry needs.

Big belief, small sums

Effective altruism, funding by cause, \$bn



Sources: ACE, EA Forum, EA Funds, FTX, GiveWell, OpenPhil, SFF, Tyler Maule

*To November 7th

ernised. Trends that go in and out of fashion in the West have little influence in Asia. Donors in the region did not adopt the data-driven approach of philanthrocapitalism 20 years ago. The “no-strings” model America’s super-rich are experimenting with today is not catching on either. “Asians tend to do their own thing,” says Naina Subberwal Batra, head of AVPN.

In a survey of non-profit groups in the region by the Centre for Asian Philanthropy and Society in 2022, a third of respondents reported a decline in unrestricted funding, which has always been uncommon in the region anyway. Only 16% said they can consistently raise money to invest in their own organisations, rather than to fund specific projects.

Nandan Nilekani, co-founder of Infosys, believes the desire of big Asian donors to work with, not against, the state will continue to be a crucial part of Asian philanthropy. It is the only way to scale

up solutions in sprawling, populous countries, he says. His own experience serves to illustrate the point. Ekstep Foundation, a group he co-founded, developed the open-source infrastructure used by the Ministry of Education to promote inclusive learning at schools. It proved invaluable during covid lockdowns. Since stepping down from everyday operations at Infosys, Mr Nilekani worked for a few years as a cabinet-level official helping to digitise the Indian state.

That should not surprise anyone. How a person makes their money shapes how they choose to give it away. Their everyday experiences matter, too. There is less room for philosophising about impact in a region like Asia, where there is still such stark income inequality. The super-rich do not have to look far to find social problems that they can help to solve. And they do not need Westerners to tell them how to do it. ■



The future of philanthropy

A mixed bag

Whether people give matters more than how they give

ANAND GIRIDHARADAS, an American author, is well-known for criticising the great and the good who gather at the World Economic Forum meeting in Davos every year. “I have a feeling,” he wrote in one philippic, “that girls in Africa are tired of being empowered by men in Davos.” Mr Giridharadas probably did not expect anyone to test his hypothesis. Nonetheless, your correspondent had a go.

A morning spent in the slums of Kenya’s capital, Nairobi, asking young women to reflect on Mr Giridharadas’s comment yielded mixed results. Rose, 17, says that if she were in the donors’ position, she would do the same. She goes on, “I would start a programme. I would build schools. I would try to empower girls.” Eunice, 15, is baffled that anyone would care who funds the work from which they benefit—work that in her neighbourhood includes schools, community halls and a hospital. “It has never crossed my mind,” she goes on. Terry, 17, just wishes foreign donors would do more. Boys in the neighbourhood need a lot of help, too, she says.

The poll is hardly scientific, but it proves a point. In an ideal world, girls in Africa would not need outside help. Given that they do, it does not matter if it is men in Davos or someone else who helps to improve their lives. What matters is that the rich give, that they do so with a view to using their money effectively, and that the recipients are empowered to improve their own lives.

Done well, philanthropy can achieve great and diverse things. It was an American heiress who funded the research that led to the contraceptive pill in the middle of the 20th century, when birth control was deemed too controversial for governments to get involved. The Carnegie Corporation paid for research into education

through television and ended up creating the production house that produced “Sesame Street”, a much-loved children’s show. Today, the Gates Foundation is funding vaccination drives and surveillance systems that could help eradicate polio.

This special report has laid out a variety of approaches that donors are experimenting with today. Multi-year unrestricted funding is certainly allowing non-profit groups to grow and innovate. But some donors who want to keep control over how their money is spent will probably stick with the more bureaucratic, business-like approach of philanthrocapitalism.

Larry Kramer, until recently head of the William and Flora Hewlett Foundation, points out that just because philanthrocapitalism is going out of fashion does not mean it has been a failure. Mr Kramer compares it to punk music in the 1970s. Many people expected it to take over the industry, which it did not. But enough elements of it stuck around and influenced other genres that we still talk about it today. Thanks to philanthrocapitalism’s methodical approach, NGOs gather data on everything they do. Recipients are being judged on the impact they have, rather than the amount they spend on overheads (as if paying staff well or buying laptops is a waste of donor money).

There is no one right way to give. As John Arnold, one of America’s most generous philanthropists, puts it, variety is a good thing in philanthropy. His group, Arnold Ventures, focuses on influencing policy and tackling the root cause of a problem, like poverty. That relies on other givers meeting immediate needs, such as funding food banks and shelters. “There is value in having people working on different slices of a problem,” he says.

Variety matters. At the moment, big-time donors are nervous about experimenting. The way in which billionaires give money away is constantly picked apart. Foundations are routinely accused of piling too much paperwork onto recipient groups. Concerns that the Gates Foundation, having invested \$2bn in fighting covid-19, has excessive power over elected governments drifted into conspiracy theory during the pandemic. Even MacKenzie Scott, one of the most generous givers ever, faced censure after she gave away billions during that time. Because she handed out grants with nothing but short blog posts to explain the logic behind them, her philanthropy was said to lack transparency. (She has since set up a website with a searchable database of her gifts.)

What about the miserly moguls who give nothing? The spotlight never lands on the 127 of the 400 richest people in America who, according to Forbes, have given away less than 1% of their fortunes. Several of those occupying the top spots on the global rich list—Bernard Arnault, a French luxury-goods tycoon, and his family (net worth \$185bn); and Jeff Bezos of Amazon (net worth \$170bn)—have not signed the Giving Pledge. In a new biography by Walter Isaacson, another of the wealthiest, Elon Musk, head of Tesla (net worth \$244bn), refers to philanthropy as “bullshit”.

Yet nobody makes headlines for refusing to sign a pledge. As Henry Timms, chief executive of the Lincoln Centre for the Performing Arts in New York City, says: “The very wealthy person who spends all [their] time on a yacht burning money gets no scrutiny whatsoever.” It is these people that the needy girls in Africa resent. Save the tongue-lashing and finger-waving for them. ■

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Europe's new power players

Who's in charge?

BRUSSELS

Where real power lies in Europe is less clear than ever

FOOTBALL IS A game where “twenty-two men chase a ball for 90 minutes and at the end, the Germans always win,” quipped Gary Lineker, an English player. For decades the European project had similarly predictable dynamics: whether composed of six countries or 12 or 27, member states chased compromises until whatever had been stitched up by France and Germany was accepted by all. But the old model of dominance by its two biggest members has long been creaking. As Europe faces up to repeated crises a new, more fluid geography of power is taking shape.

Three years of pandemic, then war in Ukraine, have helped recast the EU. This includes shifting the balance of who matters. Defence and eastward enlargement, once dormant policy areas, are now priorities—giving a new voice to Ukraine's neighbours in central Europe. The rise of China, and the prospect of resurgent Trumpism in America, has caused the EU to rethink its economic arrangements—often along statist French lines. Climate im-

peratives have reinforced the value of taking action at a collective level—an approach favoured by the EU's quasi-federal institutions in Brussels. And from Finland to France, populists on the hard right are gaining influence ahead of European Parliament elections in June.

Angela Merkel was the continent's undoubted leader. Her successor as German chancellor, Olaf Scholz, has not taken on her mantle. Many looked to Emmanuel Macron to seize it, not least the French president himself. But he faces an increasingly fraught political situation at home, which on January 8th saw him fire his prime minister in the hope of a reboot (see

next article). He cannot run for re-election in 2027, and his self-confident manner often grates among his fellow EU leaders. Germany and France carry unmatched authority when aligned. But they seldom are.

With no clear leadership, who matters these days depends on what is at stake. Take defence and security, issues at the front of everyone's minds, seeing the situation in Ukraine and more recently the Middle East. After Russia's invasion in February 2022, few looked to Germany for direction: it had let itself become hooked on Russian gas, and its armed forces were so unfit for purpose that Mr Scholz declared the need for a *Zeitenwende*, a change in the spirit of the times. In contrast, countries in central Europe, led by Poland and the three Baltic states, felt vindicated after years of warning about the danger posed by Russia, their former overlord.

Their influence has been seen in two policy shifts. One is the EU itself paying for weapons to be sent to Ukraine, a first step into defence spending. The second is EU enlargement, which had previously been off the agenda; no country has joined since Croatia in 2013. Now nine candidates are in various stages of talks (see map). Most notable is Ukraine, whose cause was carried by central Europe despite initial reservations from France and Denmark; on December 14th EU leaders agreed to start formal accession talks. If and when the bloc expands to 36 countries—which will take ►►

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► years, if not decades—the centre of gravity will shift decisively eastward.

More broadly, the central Europeans now have enough heft to push back on ideas emanating from farther west. Chief among them is “strategic autonomy”, a shape-shifting concept pushed by Mr Macron. This holds that Europe should be able to act independently of others, for example by carrying more of the burden of defending itself. Policymakers in Poland or Slovakia find the security guarantees proffered by NATO—and thus America—far more convincing. French calls for EU armed forces to buy European (ie, often French) military kit have been largely ignored.

Still, for all the sway central Europe holds when it comes to Ukraine, its voice is scarcely heard when it comes to other bits of European policymaking. (The moral authority accumulated in Warsaw and Bratislava by helping Ukraine was somewhat dented after they closed their borders to its farm exports last April, irritating leaders in Kyiv.) For when it comes to economic policy, Europe is being made to think ever more in French terms. Here Mr Macron’s clarion call for strategic autonomy has proved far more potent. Driven by a long-standing distrust of globalisation—and new fears about supply chains that can be disrupted by pandemics or messy geopolitics—France wants the continent to be more self-sufficient. Tensions between America and China, as well as the prospect of a new Trump administration come 2025, have made other Europeans listen.

Mr Macron has pushed the notion that Europe has been “naïve” in its dealings with the rest of the world, keeping its markets open when its trading partners have not: witness America with its protectionist green-transition plan, or China with outsize subsidies. EU rules banning national governments from coddling favoured industries were shelved during covid-19, and never snapped back. With a mantra of “Europe first”, politicians now wield more control over the shape of the economy. The French idea of Europe having an industrial policy was once taboo. Now it is the accepted approach.

France’s *dirigiste* impulses prevailed because its ideas filled the vacuum left by Britain, which voted to leave the EU in 2016 and finally exited four years later. Had it remained a member of the club, it would have foiled French plans with enthusiasm. Now the task is left to its erstwhile northern European allies, such as Denmark, Ireland or the Netherlands, as well as the commission in Brussels. But that loose alliance can merely water down French plans, not prevent them entirely.

Britain is not the only one not to be found at the EU’s top table. A more surprising absentee is Germany: Mr Scholz is seen as missing in action on the European

scene. His tricky coalition including lefty Greens and free-market liberals has reduced his ability to cut deals in Brussels. “The German coalition moves slower than the debates within the EU,” rues a bigwig in Brussels. That has cost it influence.

Germany’s absence has often been France’s gain. Many EU decisions have a French tinge these days, for example the absence of any major new trade deals (abhorrent to French farmers) or a partial relaxation of European rules limiting budget deficits. But mostly the absence of German engagement stymies Mr Macron’s ambitions: federalist schemes hatched in Paris truly take flight only when counterparts in Berlin accede to them. Nobody thinks the poor chemistry between the chilly, northern Mr Scholz and the effervescently Europhile Mr Macron will soon improve.

Who else is there?

France might have sought helpful alliances. But there are few obvious places to look. Italy is led by Giorgia Meloni, whose hard-right populism makes dealing with the mainstream difficult. The Netherlands is losing its long-standing prime minister, Mark Rutte, perhaps in favour of Geert Wilders, an ideological ally of Ms Meloni. Spain’s chaotic politics have limited its appetite to sway European debate. The recently returned Donald Tusk in Poland is liberal and pro-EU, but is hobbled at home.

Perhaps the biggest beneficiary of this vacuum has been the EU’s centralised institutions in Brussels. Under the stewardship of Ursula von der Leyen, herself a German, since 2019 the European Commission, the EU’s executive arm, has accumulated more power than ever before. The 32,000-strong Brussels machine has long been a formidable regulatory force, as Silicon Valley barons have found over the years. But increasingly it has weighed in on matters of politics and geopolitics, too.

This started with covid-19, when gov-

ernments asked the commission to oversee the procurement of vaccines for the entire bloc. An upshot of the pandemic-induced downturn was Next Generation EU, a €807bn (\$890bn) recovery fund of loans and grants. The commission, by being in charge of its workings, has been able to steer the money in ways that match its own priorities. A good example is its plan to slash carbon emissions to net zero by 2050—an ambition officials in Brussels are far more enthusiastic about than many national politicians, who have to defend the policy to voters wary that the green agenda will further dent their purchasing power.

Having more discretion over EU money has given the commission fresh authority, dictating to member states how the cash should be spent. These powers can be used as a stick: Hungary and Poland have been deprived of money for hobbling the rule of law at home, for example in the way their courts are run. Viktor Orban, Hungary’s authoritarian leader, has been clamouring for around €30bn in suspended EU money. In Poland Mr Tusk campaigned in the autumn in part on his ability to unlock the EU funds that had been blocked due to his predecessor’s policies.

Is this the sign of a federal Europe rising, a European superstate in the making? To the likes of Hungary and Poland, it can feel like it. But there are limits to the powers of the commission. Part of Mrs von der Leyen’s influence stems from the fact she co-ordinates closely with national capitals, for example on sanctions against Russia. She can sway the debate, for example in Europe’s attitude to China, where she promoted a “de-risking” approach to trade, less confrontational than the “decoupling” suggested by America. Arguably she is the closest thing to a European leader these days. But her power still depends on others following her, even if, as expected, she is given a second term later this year. And Brussels still spends little more than 1% of the bloc’s total GDP.

Elections have a way of rejigging the European order, too. Populists have fared well in the Netherlands and Slovakia, not so in Poland and Spain. They are expected to gain ground in the European Parliament’s elections. The most powerful force in post-war Europe—a squishy consensus in favour of liberal values and the rule of law—may come under threat.

Once the Euro-elections are out of the way, attention will turn to those in America, still the chief guarantor of European security and the biggest contributor to Ukraine’s war effort. A Trump victory would be greeted with widespread horror. That votes cast an ocean away from Paris, Berlin or Warsaw will matter so much to Europe’s future will surely unleash arguments that the architecture of power there still has much evolving left to do. ■



The new French prime minister

A mini-Macron

PARIS

Can the 34-year-old revive the president's fortunes?

A CONSTITUTIONAL PERK enjoyed by modern French presidents is the right to dump their prime minister when in need of a fresh start. So Emmanuel Macron's decision on January 8th to eject Elisabeth Borne, after little over 18 months in the job, was abrupt but not that surprising. Far more so was her replacement: Gabriel Attal, the 34-year-old education minister. Mr Attal will become France's youngest modern prime minister.

The decision, announced on January 9th, is an attempt by Mr Macron to reset his troubled second term. Mr Attal is a daring rather than a safe choice, and one that carries its own risks. The education minister is younger than Mr Macron was when he first won election to the presidency in 2017, at the age of 39. Even Laurent Fabius, the youngest modern French prime minister to date, was 37 when nominated. It marks a distinct rejuvenation of French politics. Jordan Bardella, who is leading Marine Le Pen's hard-right National Rally at elections to the European Parliament in June, is 28. Mr Macron and Mr Attal have a combined age lower than that of America's Joe Biden.

Youth in Mr Attal's case does not mean inexperience, but this has been crammed into a short and rapid ascent. Mr Attal was also briefly budget minister, and was the government spokesman when his ease in public debates first made him a household name. In 2022 he was re-elected as a deputy. Mr Attal also happens to be openly gay, having made this public in 2018.

Politically, Mr Attal is a sort of mini-Macron, and was an early recruit to Mr Macron's original political party, *En Marche*. Like his boss, Mr Attal hails from the moderate social-democratic left. He served as an adviser to the health minister under François Hollande, then the Socialist president. Also like Mr Macron in his early days, Mr Attal combines this with an appeal to the political right. As education minister Mr Attal won praise for banning in schools the wearing of the *abaya*, a long Muslim robe, under French secular rules. In this respect, after three technocratic or right-leaning prime ministers, Mr Macron's new appointee marks the return of his former hallmark centrist stamp.

Above all, Mr Attal brings the popularity that Mr Macron's current team is sorely lacking. A poll in December made Mr Attal the most popular French politician, with a rating of 40%, 13 points above that for Mr



Gabriel Attal takes the hot seat

Macron, and ahead of both Ms Le Pen (37%) and Mr Bardella (36%). In a snap poll taken after Mr Attal's nomination, his approval rating leapt to 56%. The president will be hoping that this will inject some enthusiasm ahead of the European elections, and help to reduce the crushing poll lead currently held by National Rally. The campaign may well turn into a duel between Mr Attal and Mr Bardella, a pair who represent the next political generation.

The trouble for Mr Macron, however, is that no amount of youthful energy and public charm will change the underlying problem: how to continue to reform France and take difficult decisions while running a minority government. Nor will Mr Attal's nomination render a coalition with any opposition party any more likely. Jean-Luc Mélenchon, the leader of the left-wing opposition party Unsubmissive France, was scathing: "The presidential monarch governs alone with his court."

Faced with an unruly opposition, the diligent Ms Borne did what she could. But the president wants to turn the page on a difficult year, marked by protests, summer riots and parliamentary chaos over an immigration bill. For the first time Mr Macron, who is constitutionally barred from running for a third term in 2027, seems to be contemplating his succession. In appointing Mr Attal, says an adviser, he is not anointing an heir. But he is trying to promote a new generation to secure the future of his centrist political movement.

It is nonetheless a gamble, not least because Mr Attal may well steal the president's limelight. His nomination will also irk other potential centrist successors. And under the fifth republic only two ex-prime ministers, Georges Pompidou and Jacques Chirac, have gone on to win the presidency—neither of them straight from the top government job. ■

Germany

Traffic jam

BERLIN

Angry voters turn to new parties, left and right

THE NEW year has not started well for Germany's ruling "traffic-light" coalition, nor indeed for traffic. On January 8th angry farmers blocked autobahns across the country, even as train drivers called a national strike. As statisticians revealed grim final numbers for 2023—such as a 3.1% real-terms fall in retail sales from 2022—pollsters unsurprisingly found that 82% of Germans are dissatisfied with the government. A survey measuring confidence in the office of the chancellor detected a vertiginous 55-point plunge between late 2020, when Angela Merkel still reigned, and now under Olaf Scholz.

Yet one person's bad luck may prove another's chance. Consider the case of Sahra Wagenknecht. The 54-year-old left-wing populist chose January 8th as the date to launch her new party. Right now the Sahra Wagenknecht Alliance for Reason and Fairness (BSW is the shortened German acronym), looks minuscule, with only ten MPs in the 736-seat Bundestag. Yet it stands to profit both from Mr Scholz's distress and from fortuitous timing.

Ms Wagenknecht, who in October quit Germany's main leftist party, *Die Linke*, leans to the left of the government on social spending and in reluctance to support Ukraine, but to its right in seeking sharp curbs on immigration. That combination resounds with an increasingly frustrated electorate. A survey of voters who would consider voting for the BSW found 40% cited disappointment with other parties as the top reason, 28% Ms Wagenknecht's charms and 25% the issue of immigration.

Two big political opportunities also loom for the BSW. German voters tend to take elections to the European Parliament less seriously than national ones, and see them as a chance to experiment. The vote is set for June, giving the novel party six months to campaign. In September three eastern states will hold elections. Former East Germany happens to be where the ruling coalition is most disliked.

It helps that Ms Wagenknecht is herself an easterner. Brought up in East Berlin, she remained a communist through the fall of the Wall and university, where she studied economics and philosophy. Her poise, precise diction and relentless scorn heaped on the government score strongly in a region made anxious by high inflation, relative poverty, fear of immigrants and a sense of alienation from the elite. Many East Ger- ➤

► mans share Ms Wagenknecht's suspicion of the West and blame Ukraine, not Russia, for "provoking" a war for its own survival.

Those same impulses have boosted another relatively new outsider, the hard-right Alternative for Germany (AfD), into second place in popularity, with a projected 22% of votes in a national election. Although the two parties ostensibly occupy opposite political poles, some pundits believe Ms Wagenknecht could draw more voters away from the AfD than from mainstream parties such as Mr Scholz's Social Democrats. One survey found 55% of AfD supporters, and 40% in Die Linke, would consider voting for the BSW. Far fewer in

other parties said they might switch.

Undercut by Ms Wagenknecht, Die Linke looks close to falling under the 5% threshold. Yet it is too soon for right-wingers to cheer. Hans-Georg Maassen, a former head of German intelligence who heads a hard-right splinter in the opposition Christian Democratic Union, the flagship of German conservatism, now wants to set up his own party. Meanwhile the Free Democrats, a small right-of-centre partner in the traffic-light coalition, also flounder near the 5% threshold. By the time of the next national election, in 2025, the upstart BSW may look less a minnow among sharks than one among many fish. ■

Ukraine

Laughter and fear

KYIV

Ukrainian stand-up comedy has seen a renaissance during the war

LOOKING BACK, it was undoubtedly reckless. Russian tanks still menaced neighbouring towns. Locals were missing, dead or being held and tortured. And if Russian troops did manage to enter Sumy, just 30km from the eastern border, they would surely have no trouble identifying the ring-leader. But for Felix Redka (pictured), a local comedian, organising a stand-up show on the 24th day of the Russian occupation of Sumy was more than just an act of defiance. It was fun. "When else would I have the opportunity to do stand-up in a nuclear bunker?" he says.

Mr Redka's gig in March 2022, watched by 150 nervous locals in real time and millions of online viewers since, marked a watershed. Anton Zhytlove, a comedian and businessman in Kyiv, says the gig gave an "emotional charge" to others still sheltering underground. "We didn't know if we could joke or not," he says. "Felix showed us a way to resist." In the weeks that followed, Ukrainian stand-up comedy boomed. Mr Zhytlove will open his third new venue in Kyiv later this month, one of at least six in the capital alone. Belief, more than cashflow, is what is powering the Ukrainian expansion, he says. "It is also the best way to ensure you get a gig."

Stand-up comedy was a thing in Ukraine long before the full-scale invasion. A circuit of sorts had developed by the late 2010s. But back then the business was dominated by touring Russian comics, mostly backed by Kremlin-financed TV companies. The market for local comics was more limited. "I had an average audience of about four," recalls Mr Redka. But the invasion inverted the market. Ukrai-

nian audiences began to demand Ukrainian comedians. And they discovered a group of artists who were more than capable of performing. Now the best of them perform to audiences of 1,500 or more.

The language of comedy also changed. Before the war, most stand-up was performed in Russian. Now the genre is almost exclusively Ukrainian-language. Switching was not just a matter of principle, says Efim Konstantinovsky, a comedian hailing from Russian-speaking Dnipro. The market began to insist on it.

Comedians have plenty of common experience to tap into: curfews, air alerts, friends and relatives on the front. "Comedians are like rats: we survive any disaster

and are the first to emerge from tragedy," says Vasyl Byduck, an absurdist performer. He says comedy offers support to Ukrainians, giving them a way to make fun of even the most horrific things. "We have a fancy phone app that tells you when the Russian missiles are about to land. You can even change the voice of the warnings. You can have Marge Simpson telling you you're about to die."

Many of the jokes can appear harsh to an outsider. Dead Russian soldiers are a controversial recurring theme. "I don't think that a dead Russian is OK," counters Nastya Zukhvala, perhaps the most prominent woman in the new wave. "A dead Russian for me is not OK. It's very good actually." But war has also created no-go areas even for the most cynical of performers. Ukrainians can easily be triggered, says Mr Konstantinovsky. "I don't let myself make many jokes about soldiers."

Mr Byduck thinks one rule is having an intimate knowledge of the subject. He would never make a joke about amputations, he suggests. But he has tried to make humour out of the personal tragedy of a relative who went missing in action last year, presumed dead. "Stand-up works best when you have personal experience to share, however tragic."

Ms Zukhvala, whose husband is serving at the front, says the war has proved there are few subjects that Ukrainians cannot deal with through humour. The problem is often the contrary: it is difficult to find material that is dramatic enough for Ukrainians to find funny. "A run-of-the-mill missile attack is no longer enough for us," she jokes. "We have to go nuclear. The other day I remember waking up from explosions and being taken aback by this big, bright light. I thought, this is it! Perhaps I'm already in heaven? Then I realised, no, Nastya—that's just the sunrise." ■



You had to be there

Charlemagne | What Jacques might have done now

How the spirit of Jacques Delors might be rekindled



AMERICAN EVANGELICALS don bracelets adorned with the letters WWJD, “What would Jesus do”? EU officials, faithful to a calling of a different sort, have of late been pondering their own WWJD: “What would Jacques do?” The death of Jacques Delors on December 27th has had many in Brussels wondering how to recapture the aura of the messianic president of the European Commission from 1985 to 1995. In just a decade the Frenchman bequeathed to Europeans the single market, then laid the grounds for the euro and passport-free travel among other federalising milestones. After a national homage in Paris on January 5th, words once uttered by this latter-day founding father of the EU are being recited, psalm-like, to guide today’s euro-disciples. What would it take to recreate the conditions that got Europe lurching forward together?

A big part of rebooting Delorsism is to realise it was only partly the result of Mr Delors’s undoubted political talents. A chief ingredient of his success was the way Europe was at the time. A generation of national leaders who grew up through the second world war—notably François Mitterrand in France and Helmut Kohl in Germany—had reached their political apogee by the mid-1980s, and had a sense that their legacy should include banishing Europe’s ugly nationalisms. Tepid growth in the 1970s had given a glimpse of Europe’s future irrelevance if it failed to jolt itself onto a different track. Seizing the moment, Mr Delors cajoled national governments into giving up vetoes, particularly when it came to some economic matters, thus bringing down barriers between countries. He convincingly explained how a little loss of sovereignty could result in a lot of economic gain.

The single market remains the EU’s greatest achievement. What is the *grand projet* that could recapture the Delorsian spirit? Spooked by revanchist Russia or flaky America, some today talk of a European army. That is likely to prove trickier than harmonising regulations for cars and chemicals. A bigger EU budget, beyond the tiny 1% or so of GDP it spends now, is for Brussels to demand but national capitals to agree to; scrimping northerners, led by Germany, are unlikely to stump up more money soon. The Green Deal, which involves overhauling the European economy to meet carbon imperatives, is vital stuff, much of it agreed on at EU level, but exacerbates the caricature of Brussels as a dispenser of red tape.

Returning to a Delorsian age would be easier if three developments since his time were to be reversed. The first is the idea that “more Europe” is the answer to every challenge the continent faces. This was not the Frenchman’s approach. Though he personified a powerful Brussels (a bit too powerful, Britain’s Margaret Thatcher came to believe), he aimed for a “federation of nation states” and, after he left office, he opposed the idea of an EU constitution. Sometimes doing less centrally might mean doing better, especially since the EU has more than twice as many members today as in Mr Delors’s time.

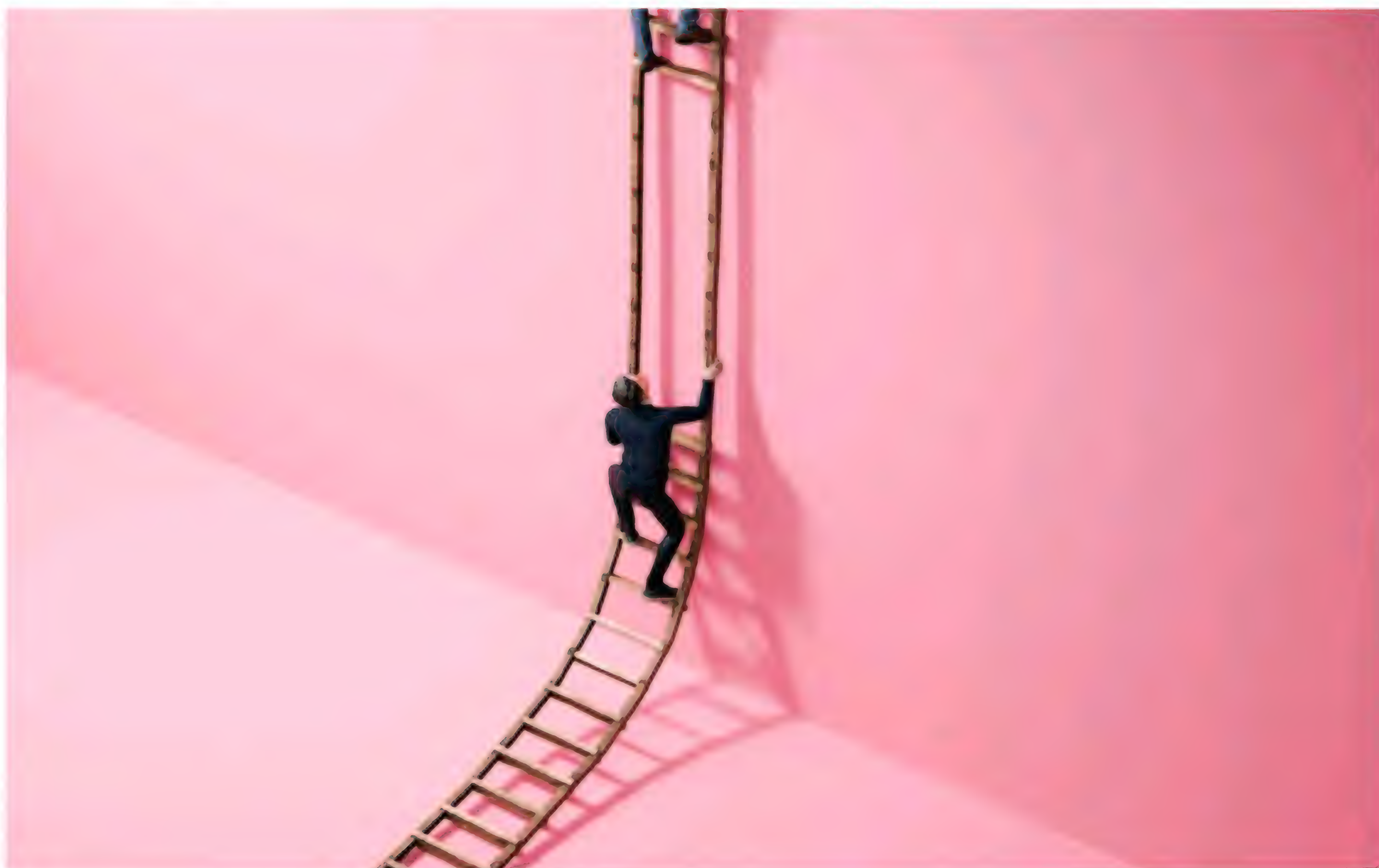
The second idea to be scrapped is that Brussels gains democratic legitimacy if its institutions are politicised. Mr Delors, a former central-bank official who straddled left and right, showed that pragmatism trumps ideology when it comes to crafting a common way forward. The advent of a “political commission” in Brussels, its top jobs doled out to reflect the result of European elections, has muddled its mission as guardian of the European treaties. Better to assume that legitimacy will come from elected national leaders, who meet every few weeks in Brussels anyway.

The third misguided development is having two figureheads at the EU: the president of the commission, as Mr Delors once was, and since 2009 the president of the European Council, who chairs meetings of EU leaders. The endlessly self-promoting current incumbent of the second role, Charles Michel, has announced he will step down early. Reuniting the two positions would be an intriguing idea. It might give, for example, a clear “Mrs Europe” mandate to Mr Delors’s current heir, Ursula von der Leyen, thus far the exalted Frenchman’s most capable successor at the commission. Failing that, finding a competent but discreet grandee willing to eschew the limelight to chair meetings of EU leaders would be preferable. How about Mario Draghi, the former head of the European Central Bank, later the prime minister of Italy?

Jacques of all trades

The simplest homage to Mr Delors would be to reboot his beloved single market. It has suffered of late. The commission has turned a blind eye to flagrant breaches of the principle of a level playing-field as national governments have subsidised favoured companies with not one rebuke from Brussels, in the name of competing with China or America. A report by another former Italian prime minister, Enrico Letta, will soon propose ways to reinvigorate the single market, before Mr Draghi himself will suggest how to improve the EU economy. Just enforcing the single-market rules as they were devised would be a good start.

If Delorsism carries a lesson, it is to debunk the notion that Europe can only ever progress through catastrophe. Thanks to a much-used quote by Jean Monnet, a true founding father of the EU, that “Europe will be forged in crisis”, it is too often assumed that only calamity can create the political space for new schemes to emerge. Wolfgang Schäuble, the German finance minister at the time of the euro-zone crisis, who died just before Mr Delors (and is less fondly remembered, at least in southern Europe, where he was seen as a skinflint), once echoed Monnet, saying that “We can only achieve a political union if we have a crisis.” This progress-through-tribulation has been the *modus operandi* of the von der Leyen commission, dogged by covid-19 (which resulted in a huge pot of jointly borrowed money) and war in Ukraine (for which EU funding to buy arms was made available). If no fresh calamities befall Europe, it should still be remembered that there was once a leader who knew how to forge ahead without them. ■



Property

The housing ladder, 1950-2005

A redundant metaphor is blinding policymakers to big changes

POLITICIANS SHARE with estate agents a tendency to stretch the truth and skate over unpleasant details. The resemblance extends to home ownership itself, where one of the animating ideas of housing policy is more fiction than truth. Ask a politician from any major party about property and the words “housing ladder” will soon crop up. Both Rishi Sunak, the prime minister, and Sir Keir Starmer, Labour’s leader, are keen to tell voters how they will help young people get onto its first rung.

The ladder is deeply embedded into British thinking. On its most narrow definition, it is usually taken to mean the idea of first-time buyers purchasing a modest dwelling (a flat, say) and then trading up to something larger as their incomes grow and their housing equity increases. More broadly, the metaphor reflects Britons’ general aspiration to residential-property ownership. The private rented sector, by this way of thinking, is a waiting room that people spend some time in before pro-

gressing to owning their own home. Getting onto the ladder—and avoiding property snakes associated with unemployment or divorce—is a natural stage in life.

The problem for Britain’s policymakers is that the facts do not fit this fable. Home ownership peaked almost 20 years ago. Between 1961 and 2001 the proportion of owner-occupied English housing rose from just over 40% to just under 70%. Since then it has fallen (see chart on next page).

The ratio of house prices to earnings in

Britain, according to the Office for National Statistics, is now over eight, compared with a norm of closer to four for most of the 1950s to 1990s. Just getting onto the first rung of the ladder is much harder as a result. Only around a third of younger Britons now own their home at the age of 30, compared with more than half of earlier generations at that same age.

Even those who do make it onto the ladder are less likely to trade up than in the past. A 2017 report for the Council of Mortgage Lenders, a trade body, found that movement by existing home owners had been declining for three decades as affordability and borrowing constraints limited the ability to “trade up”.

The housing ladder, in other words, is an idea that is around two decades out of date. It existed as a result of a particular set of economic and policy circumstances which lasted from the 1950s until the early 2000s. And whatever Britain’s politicians might desire, those circumstances are unlikely to return.

The first factor that made the ladder possible was generally falling interest rates and wider access to mortgage finance. Mortgage availability was liberalised in the 1970s and 1980s; banks were happy to lend ever larger multiples of salaries and at ever higher loan-to-value ratios. At the aggregate level, the ratio of household debt to income—the bulk of which is mortgage lend- ➤

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ing—rose from under 60% in the late 1960s to a peak of over 180% in 2007. This was the era of now-failed mortgage lenders such as Northern Rock happily offering 130% loan-to-value mortgages to new buyers. Those days are long gone, primarily as a result of tighter financial regulation.

A second factor was the sale of council-owned housing to existing tenants at discounted prices, which began in earnest in the 1980s under the Right to Buy scheme. Around a tenth of Britain's housing stock was transferred from state ownership to private hands over the course of little more than a decade. That, though, was a one-time trick. Policymakers from both main parties now say they are keen to put up more houses. Talk of reforming the planning system to increase English house-building to 300,000 new units a year is welcome. But the most optimistic analysts believe that even a decade of building at such levels would reduce house prices by only around 10%; the house-price-to-earnings ratio would still be around seven.

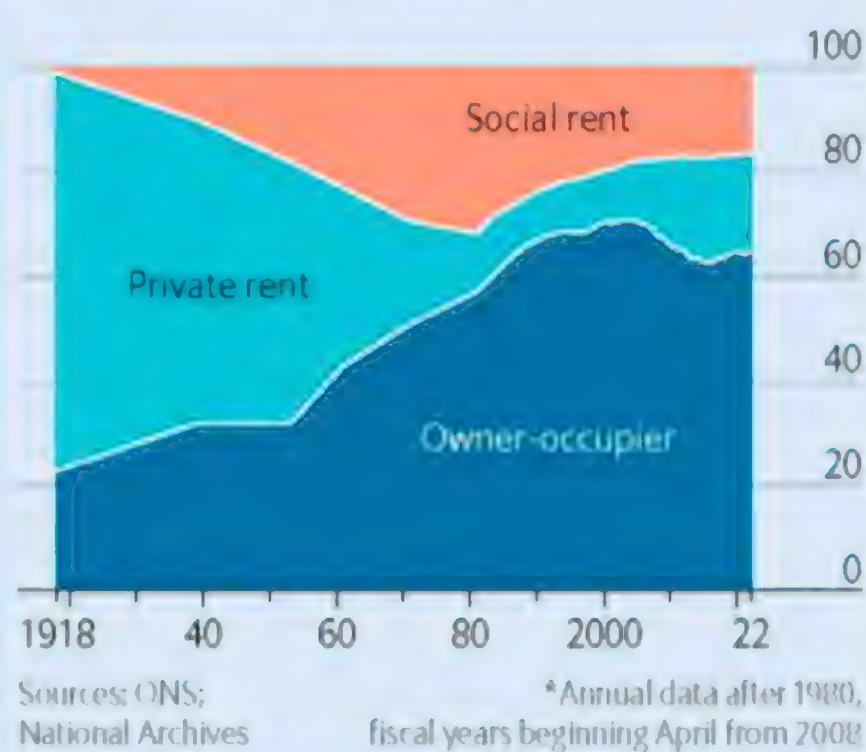
An ageing population also plays a role in the supply of housing. Older Britons, those more likely to have benefited from the housing boom of previous decades, are living for longer than they did a few decades ago. And a home owner in their 30s is twice as likely to move as a home owner in their 50s. Houses do not cycle back onto the market as quickly as they once did.

Britain's politicians may struggle to recognise it, therefore, but the nature of the British housing market has changed fundamentally. The private rental market is no longer a waiting room; for many people it is the destination. In 2001 fewer than one in ten Britons rented privately; now one in five do. That has important implications for housing policy. Rather than fretting about owner-occupation, for example, a modern housing agenda would be much more concerned about professionalising the rented sector. The British market is unusually fragmented; the typical landlord owns two or three properties, and the single largest institution has a market share of just 0.2%. Encouraging larger entities into the rental sector would make sense, among other things.

The removal of the ladder has wider implications, too. Take monetary policy. In the early 1990s almost 45% of British households had a mortgage compared with 30% today. The mortgage market has conventionally been a major part of the transmission mechanism through which changes in the Bank of England's base rate have fed into consumer behaviour. In a world with a structurally smaller mortgage market more pain has to be concentrated on a smaller number of households to get the same effect.

The changing shape of the housing market also poses an underappreciated

20 years past the peak
England, housing by tenure*, %



long-term fiscal risk for the government. Britain's welfare system is built on the implicit assumption that pensioners will either have paid off their mortgages and own their homes by the time they retire or will be living in subsidised social housing. In 2021 there were almost 1.2m private-sector tenants in England aged between 45 and 64, a rise of 70% on a decade before. As they begin to retire over the coming decade their incomes will fall but their housing costs will not. The result will be a large rise in pensioner poverty, a large rise in the housing-benefit bill as the government subsidises their housing costs, or, most probably, some combination of the two.

The housing ladder may have died two decades ago but its allure as a metaphor remains. That continues to blind Britain's politicians and voters to the reality of the property market. Rather than harking back to a bygone age, Britain's politicians need to accept that there is more to housing than home ownership. ■

Officials and the opposition

Hush-hush

Furtive pre-election talks are typical of Britain's constitutional vagaries

SIR KEIR STARMER will soon ask Rishi Sunak for permission for Labour shadow ministers to begin talking to civil servants to help them prepare for government. In fact, the opposition leader may already have asked. The prime minister may so far have refused. No one is quite sure what is going on, which is often the case when it comes to matters of state in Britain.

In many countries pre-election talks between opposition politicians and mandarins are established routines. Questions can be posed and plans tested. The idea is to make handovers of power smoother, es-

pecially when there is no formal transition period. In Britain, which takes exception to anything so dull as a written constitution, there is instead an awkward dance of hesitant approaches and furtive exchanges.

Talks between the opposition and the civil service were first formally requested 60 years ago. Official minutes record that the then prime minister, Alec Douglas-Home, approved them on three conditions. They had to be "discreet"; they had to be conducted "on a factual basis"; and, above all, the prime minister had to "know nothing whatsoever" about them (despite already knowing about them).

A precedent, the "Douglas-Home rules", was established—contact should be allowed. But who, when and on what terms was not entirely clear. For a prime minister, the risk was that being seen to connive with the opposition damaged morale within his party. Opposition leaders fretted about appearing presumptuous. Everyone could at least agree that discretion was essential. As one private secretary opined: "This really is the opposite of 'justice': it perhaps ought to be done but it certainly mustn't be seen."

That means lots of cloak-and-dagger arrangements. In 1996 Tony Blair summoned a succession of Sir Humphreys to a borrowed town house in Notting Hill. It also leaves room for petulance. Harold Wilson, a Labour prime minister, was accused of not sticking to the "rules"; after grudgingly allowing access talks before the election in 1970, he neurotically sought to track all contact between the civil service and the Tories. Mr Sunak reportedly grouches about the risk of officials "downing tools".

For civil servants, the process is awkward. The meetings are often useful. Shadow ministers can be tactfully warned about holes in their plans or in a department's finances; officials can prepare for big reforms. But try too hard to impress the next boss, and the current one may find out.

After long spells in opposition, politicians (some current Labour ones included) can also suspect civil servants have been captured by the other team, or simply not understand what officials are there for. In 1991 John Prescott, a Labour brawler, barrelled into one meeting fresh from a boozy award ceremony: "I know I'm pissed, but I first want to ask one question: why do I want some permanent cabinet secretary telling me things?"

Sir Keir has poached some expertise; Sue Gray, his chief of staff, was a wily Cabinet Office fixer. But if talks don't start soon, warns Catherine Haddon of the Institute for Government, a think-tank, his team could find itself ill-prepared for office. Much silliness could be avoided, she says, if a prime minister agreed to clearer rules or let the top civil servant oversee things. But where would be the fun in that? ■

Bagehot | Britain's populist paradox

A country ripe for the radical right is on course to elect a centrist who wants a quieter politics



OPPPOSITION LEADERS usually dream of entering Downing Street to the roars and bellows of a triumphant crowd. According to Sir Keir Starmer, the arrival of a new Labour government after the next general election will sound more like the start of a yoga class. There will be “a collective breathing out,” he said in a speech on January 4th. “A burden lifted. And then, the space for a more hopeful look forward.” Fourteen years of Conservative government will end not with a bang but an *ommmmm*.

Call it Britain's populist paradox. Across Europe—in Austria, France, Germany, Italy and the Netherlands—radical-right parties are in fine fettle. Many draw inspiration from Donald Trump, who has a remarkably good shot of returning to the White House. Britain is on a different trajectory. A Conservative Party which has often echoed the policies, rhetoric and tropes of what academics call “national populism” is on course for an electoral defeat, and possibly a calamitous one. Instead, the country is likely to elect Labour under Sir Keir, a stiff social democrat who offers a worthy recipe of restored institutions, fiscal rectitude, diligent public service and healed social divisions.

That is a puzzle. Forces that feed the radical right—depressed living standards, high immigration and mistrust of elites—proliferate in Britain. Real wages will be no higher by the end of the year than they were in 2006, according to a paper by the Resolution Foundation, a think-tank, published in December. Britons voted to limit migration in the Brexit referendum of 2016; instead it has surged, to a net 745,000 in 2022. Just 9% of Britons say they trust politicians to tell the truth, according to Ipsos, a pollster; that is the lowest score since it began asking the question in 1983.

This sounds like fertile ground for Reform UK, a right-wing outfit co-founded by Nigel Farage (and formerly known as the Brexit Party), that is led by Richard Tice, an ex-property developer. Reform UK has seen an uptick in the polls, to 11%, according to *The Economist's* poll tracker. But it is part of a fight between conservative elites for the future of the right rather than a popular movement that slices through established party lines, as Brexit and Mr Trump did. It draws almost entirely from Tory ranks: some 20% of the Conservatives' 2019 voters say they will support Reform, against just 2% of Labour's.

Mr Tice has cast his outfit in neo-Thatcherite colours: he denounces the governing “Consocialists” and calls for deep cuts to tax, government spending and regulation to stimulate Britain's sluggish economy. The aim is to exploit the gulf between the Conservative Party's self-image as the party of low taxes and low immigration and its record in office. Mr Sunak's warnings that Mr Tice will only help the Labour Party are met by Reformers with a shrug: splitting the right is the point. They hope the Tories suffer an electoral calamity, the worse the better, and then split between moderates and right-wingers. Reform UK would then challenge the rump party to be the true voice of British conservatism. The next election “will be a punishment-beating from which they can't come back in their current form”, says one party figure.

This is not a strategy with mass appeal. Whereas the UK Independence Party (UKIP), which Mr Farage once led, routinely polled second place in by-elections in the years before the EU referendum, Reform UK has not met the 5% threshold to keep its deposit in ten of the 11 contests it has entered since 2022. The reason is largely its small-state agenda—a return to UKIP's fusty roots, which Mr Farage had to disguise as he wooed working-class voters in poor towns who wanted higher spending. (Reform UK's stint as a lockdown-sceptic outfit flopped among an electorate that rather liked the slap of the covid-19 state.) For now Reform UK looks more like a virtual movement than a popular one: it has a scant presence on local councils and Mr Tice relies on regular slots on Talk TV and GB News, right-leaning channels that are increasingly influential among conservatives. This will change only if Mr Farage—who can still pack out pubs and theatres—returns to the front line.

Namaste Labour

Sir Keir, meanwhile, understands Mr Farage's old voters better than the caricatures of him as a Europhile, metropolitan human-rights fanatic allow. Leaders are shaped by what preceded them: Sir Tony Blair by Thatcherism, David Cameron by Blairism and Sir Keir by the Brexit years. His party is refitted around what Labour wonks term “hero voters”—the older, white working classes in Brexit-leaning seats. Labour is now sceptical of globalisation; it venerates blue-collar work over white-collar jobs; it is authoritarian on crime; it denounces Westminster as endemically self-interested and sleazy. Sir Keir's speeches are peppered with words like class, family, work, respect, security, resilience, duty, service and country. (Absent: equality, freedom, openness.) Whenever he talks of Brexit, he sounds rather like Charles de Gaulle addressing the French Algerians: “*Je vous ai compris.*”

Sir Keir's promise of yoga-class politics is also astute. The problem with populism and nationalism, Sir Keir said in his speech, is that “it needs your full attention. It needs you constantly focusing on this week's common enemy. And that's exhausting, isn't it?” His promise for a politics that “treads a little lighter on all of our lives” sounds like a repudiation of the past decade. But it also harnesses the desire for security and a more parochial politics. Recall that the Vote Leave campaign pitched Brexit not as a risky adventure but as “the safer option” than staying in a crisis-ridden EU, and as a means to get more money for the National Health Service. Note how, three years later, Boris Johnson's promise to “Get Brexit Done” was sold not as a continuation of the constitutional battle but as a way for bored voters to “end the argument, stop the chaos” and hire more nurses and police officers. Sir Keir's post-populist pitch is a bet that British voters want to hear less from their politicians and to see more of their doctors. They always did. ■



The new era of global sea power

Gun, boat, diplomacy

Naval might is back at the heart of competition—and conflict

THE OCEANS matter in geopolitics once more. Taiwan stands on the cusp of an election that could shape its future. A conflict over the island would involve an intense Sino-American naval war stretching well beyond the Pacific. In the Middle East the Houthi rebel group is menacing shipping in the Red Sea, disrupting global trade. And in Europe the war in Ukraine may turn on the maritime contest for the Black Sea and Crimea. Sea power is back.

There are bright spots for Western navies in this new era. America and its allies still possess the most advanced submarines. They are bound together in naval alliances and partnerships unmatched by Russia or China. But their naval dominance is eroding. China's navy is now the world's largest (see chart on the next page). American shipyards have withered. And European navies are a shadow of their former selves, having shed 28% of their submarines and 32% of frigates and destroyers between 1999 and 2018.

These are dismaying trends. Despite growing protectionism, the seas remain a

vital conduit for the world economy. In 2023 the ClarkSea, a measure of the average daily earnings for the world's shipping fleets, was 33% above its ten-year trend. Seaborne trade was up by 3% to 12.4bn tonnes and global shipbuilding was up by 10%: China produced over half of output for the first time. Around 80% of global trade by volume travels by sea and about 50% when measured by value.

There is no shortage of reminders of what happens when that is disrupted. The covid-19 pandemic in 2020 caused chaos in supply chains, as did the blockage of the Suez Canal a year later by the *Ever Given*, a container ship. Russia's invasion of Ukraine in 2022 played havoc with the world grain market. And Houthi missile strikes in the Red Sea in recent months—a far cry from the low-tech pirate plague of the 2000s and 2010s—have caused Asia-to-Europe freight costs to triple as shipping reroutes around South Africa.

Maritime arteries do not just carry physical goods. TeleGeography, a data-analysis firm, counts more than 574 active

or planned submarine telecoms cables around the world, carrying 97% of global internet traffic. The war in Ukraine and resulting tensions in Europe have underscored the geopolitical risk to this infrastructure. In 2022 the Nordstream 1 and 2 gas pipelines through the Baltic Sea were blown up by unknown assailants. A year later data cables between Estonia, Finland and Sweden were mysteriously cut.

If the oceans are at the heart of the international order, they are also the landscape where challenges to that order are playing out. The crux of Sino-American rivalry concerns dominance over maritime Asia. America and its allies are joining hands to contest China's claims to the South China Sea and track its growing fleet of subs and ships. The People's Liberation Army Navy (PLAN) is building aircraft-carrier strike groups—its third homemade carrier, the *Fujian*, is nearly complete—and increasing the size and frequency of naval drills around Taiwan. It is also seeking a niche in ports around the world, from the Solomon Islands to Equatorial Guinea to the United Arab Emirates.

Clouds gather

Geopolitics at sea is distinctive in several ways, observes Alessio Patalano of King's College London. Armies deploy to a particular place, carry out a mission and return. A training mission will rarely turn into a war. Warships, by contrast, deploy for open-ended voyages whose purpose can

change at a moment's notice. A ship may make a friendly port call one day and shoot down Houthi missiles the next.

Moreover, the oceans are natural environments for competition. The high seas are international waters. The UN Convention on the Law of the Sea (UNCLOS) grants countries a 200-nautical-mile exclusive economic zone off their coasts, yet states quibble over the details. America has not signed UNCLOS; China disregards key provisions. Armies in peacetime rarely encounter each other amid such haze.

At the same time, naval power is a supple tool of statecraft because it can resist swift escalation. In a crisis on land, armies can be reinforced quickly with fresh troops. At sea, sending forces to a flash-point takes longer. Attribution—working out who attacked whom—also takes longer. Naval crises are thus less likely to spiral into bloodshed. Mr Patalano cites South Korea's decision to show restraint after a North Korean submarine attacked and sank one of its warships in 2010.

Still waters run deep

The relatively slow pace of naval confrontations, and their inherent ambiguities, help explain why China has used militarised fishing fleets to bully its neighbours across the South China Sea. The most recent example is in the Philippines, where Chinese vessels have rammed and harassed Filipino ones attempting to resupply Second Thomas Shoal, a small reef which China claims. On January 3rd America responded by sending an aircraft-carrier to exercise with the Philippines.

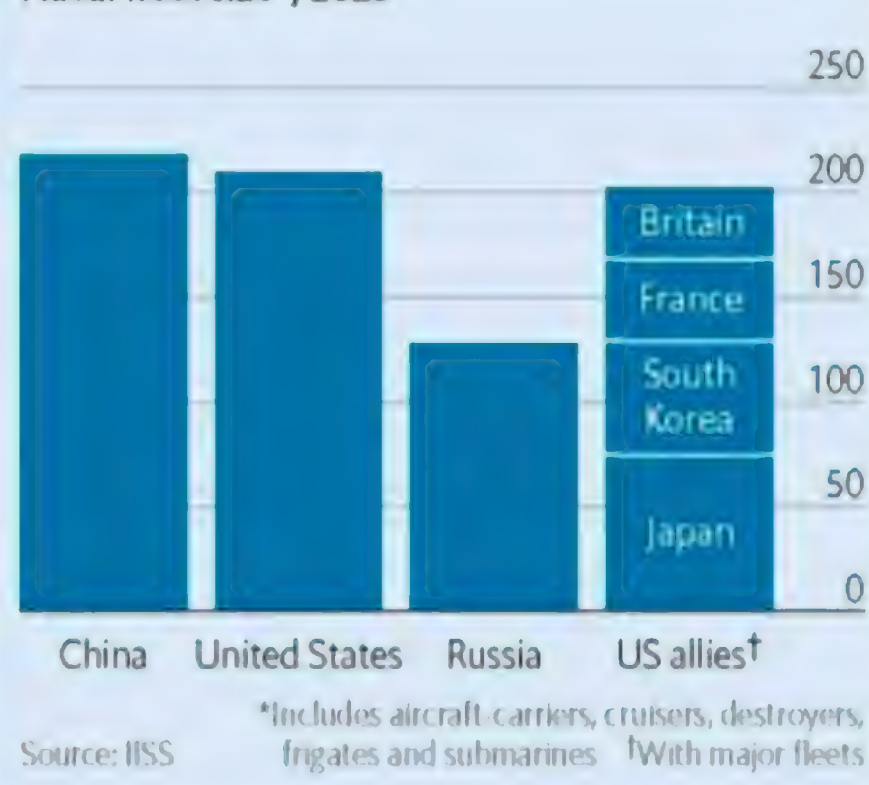
This peacetime shadow-boxing has a minatory quality. In the post-cold-war era the oceans had become a "benign conduit for the projection of power", says Nick Childs of the International Institute for Strategic Studies (IISS), a think-tank in London. American and allied navies bombarded Afghanistan and Iraq at leisure. Occasionally they hunted pirates. "Now," says Mr Childs, "we're back into a new age where people are having to prepare for the potential for warfighting at sea." This is unfamiliar territory. The last officer to have served in the Falklands war between Britain and Argentina, the last big naval war waged by a NATO country, is long retired.

To fight hardier foes, ships are getting bigger and better armed, notes Mr Patalano, pointing to the example of the Italian navy's *Francesco Morosini*—an offshore patrol vessel. These were usually small ships for coastal defence. But new ones are often the same size as 1990s-era frigates and come armed with air-defence systems and heavier weaponry. America's next generation of destroyers might carry one-third more missiles than the current ones.

The prospect of high-intensity naval warfare is also boosting the importance of

Ship happens

Naval fleet size*, 2023



submarines. Modern surveillance and precision-guided weapons put large surface vessels increasingly at risk, particularly closer to enemy shores. Submarines are far less vulnerable to this. Though their movements and missions are usually shrouded in secrecy, they can sneak into enemy waters to collect electronic intelligence or deliver special forces, covertly track enemy fleets at sea or loiter offshore in a crisis with the capacity to fire volleys of missiles. America's Ohio-class subs carry up to 154 cruise missiles, 26% more than America's best-armed surface ship.

Undersea warfare is particularly important because that is where the West has its sharpest technological edge over Russia and China, both of which have limited capacity to detect, track and target American and allied subs. That explains why a mid-sized power like Australia is willing to spend hundreds of billions of dollars over three decades on leasing American nuclear-powered subs and building new ones with Britain. The AUKUS deal was announced by the three countries back in 2021. The prospective AUKUS-class sub also shows the increasing emphasis on firepower: unlike Britain's current attack sub,

it will have a vertical launch system (VLS), upright tubes with many more missiles, and more advanced ones, than traditional torpedo tubes.

The wars in Ukraine and the Middle East show how such arms might be put to use in a major conflict at sea. Russia has laid mines in Ukrainian waters and fired missiles at cargo ships berthed in Odessa. The Houthis have fired drones and ballistic missiles at commercial shipping, and have managed to board at least one vessel.

Blockade tactics are of deep interest because they would be crucial to any war in Asia. "If there is a war over Taiwan," writes Lonnie Henley, a former China analyst for the Pentagon's Defence Intelligence Agency, "an extended Chinese blockade is likely to determine the outcome." A paper by Michael O'Hanlon of the Brookings Institution in Washington models a conflict in which China blockades the island by requiring all ships wishing to visit Taiwan to dock on the Chinese mainland for inspection. To understand the possible challenges ahead, it is worth scrutinising the paper.

In the scenario an American-led coalition of around a hundred warships attempts to break the blockade by clearing a shipping lane hundreds of miles to the east of Taiwan. It would take a month or more to clear minefields, estimates Mr O'Hanlon, and longer if China could deploy advanced mines capable of repositioning themselves autonomously. America or Taiwan would need to subsidise insurance payments, reflag cargo ships or promise to reimburse owners if their vessels were sunk. They would also need to find crews willing to head into a war zone. "Many thousands of personnel would likely die," concludes the paper.

In fact, says Mr Henley, reopening the shipping lanes east of the island would not suffice. Taiwan's east-coast ports are isolated by high mountains and narrow roads that rely on vulnerable tunnels. Even if it were to destroy the Chinese fleet in battle, America would still have to get hundreds of tonnes of cargo into Taiwan's main ports in the west every day, for months, "in the face of extensive mining and hostile fire, close to China and under conditions of Chinese air superiority". Supply by air would probably be impossible, he adds.

Samuel Paparo, the admiral nominated to be America's next navy chief, has insisted that America could break through a Chinese quarantine: "The US alone has every capability to break such a blockade." Mr O'Hanlon is less sure. His calculations suggest that the outcomes are "too close to call". Mr Henley is gloomier still. America has created a navy built to defeat a Chinese landing on Taiwan, he warns, not one capable of penetrating a blockade of Taiwanese ports and airfields for prolonged periods: "We cannot win with the force we are



A port for every storm

Chinese investment in foreign ports*, 2000-21, \$bn



Source: AidData

▶ currently building.”

The ability to exploit sea power cuts both ways. Taiwan is vulnerable to blockade because it depends on seaborne imports for energy and agriculture. But China also has to ship in most of its oil as well as raw materials. One retaliatory option would be a “close-in” blockade near Chinese ports, attacking ships and laying mines just as Russia does against Ukraine. That, however, would present many of the same problems as an effort to open Taiwanese ports, including the risk of nuclear escalation arising from strikes against the Chinese mainland.

An easier and safer approach might be a “distant” blockade: stopping China-bound ships at choke points like the Strait of Hormuz or the Strait of Malacca. Fiona Cunningham of the University of Pennsylvania calculates that America’s navy is large enough to intercept only a quarter of merchant vessels passing through South-East Asian straits. A blockade would take a month to put into effect, she reckons, and would need to be sustained for at least six months to cause shortages of civilian and military goods in China.

Such a blockade would demonstrate two important aspects of sea power. One is that it relies on global alliances, just as in an earlier age it relied on global empires. Indonesia, Malaysia, Papua New Guinea, Singapore and other partners in the region would have to permit America to use their waters and airfields, notes Ms Cunningham. The other is that the multinational nature of modern shipping poses a severe challenge to would-be blockaders deciding what to stop and what to let through. The *Ever Given*, for instance, was Japanese-built and owned but chartered by a Taiwanese company, crewed by Indian officers and bringing goods from China to Europe.

Blockades also show how technology is changing naval warfare. Robotic mines can

scoot around, making them easier to lay. “A lot of blockades could be done by uncrewed vehicles,” suggests Kevin Rowlands, who heads the Royal Navy’s think-tank. Cyber operations could check a ship’s documentation and route, he adds. Conversely, Ukraine has illustrated how drones can also attack a blockading fleet.

Though Ukraine has made ample use of old-fashioned anti-ship missiles, weapons which proved their worth more than 40 years ago in the Falklands war, it has also employed uncrewed surface vehicles (USVs)—essentially drone boats—to repeatedly strike Russian ships in the Black Sea and ports on the Crimean and Russian coast. On January 4th a Houthi USV even came within a couple of miles of American warships and an assortment of merchant shipping before it blew up.

Almost all major navies plan to operate large USV fleets in the future, alongside crewed ships. Technology is outpacing the law. Much of the relevant law is more than a century old, says Commander Caroline Tuckett, the Royal Navy’s top adviser on international law. Even in peacetime the UNCLOS, adopted in 1982, puts obligations—such as rendering assistance to mariners in distress—on the “master” of a vessel or the commanding officer of a warship. A USV navigating autonomously has neither.

Sceptics argue that the military impact of USVs has been hyped. Basic gunfire, well aimed, could take many of them out. New weapons, like shipborne lasers, which most big navies are testing, might further tilt the advantage to the defender. Nevertheless, Captain Rowlands argues that a structural shift has taken place in the nature of naval power. “Having a navy used to be a very expensive thing,” he says. “There were great barriers to entry. Now there aren’t. You don’t need to have a baroque navy with billion-pound destroyers to exert influence at sea.”

Perhaps not. But in a global contest for the oceans, guerrilla raiding will not suffice. Moreover, the stress on larger, better-armed and costlier warships has led to fewer of them. The Royal Navy, which once bestrode the world’s oceans, will soon fall to a paltry 16 frigates and destroyers. It has just 70 ships in total. In the space of around one year alone, 2022-23, the PLAN grew by around 30 ships, of which 15 were classed by the Pentagon as “major surface combatants”. A slide from last year produced by the Office of National Intelligence, which is a branch of the US Navy, showed China having 50-55% more warships than America by 2035.

Russia’s war in Ukraine has demonstrated that wars of attrition demand mass and scale. That is even more pronounced at sea. Fresh soldiers can be conscripted and tanks scraped up from warehouses. Such choices are not open to navies, says Mr Patalano; replacing a single warship takes three to five years. Replenishment is expensive, hard and slow.

If a war lasts that long, America will be at a disadvantage. Chinese shipyards have a capacity of more than 23trn gross tonnes, a measure of a ship’s volume, according to American intelligence estimates. America can manage less than 100,000, though its allies Japan and South Korea would help close the gap somewhat. America’s navy suffers from “a huge disconnect” between what it needs and what it has persuaded Congress and American taxpayers to fund, says Emma Salisbury of Birkbeck College in London. She notes that the British navy’s share of the defence budget has remained steady, at about one-third, for 50 years.

Sea change

Competing in an age of sea power will require not just larger navies and the capacity to build them but also a change in mindset. Diplomacy will have to focus on ports, maritime alliances and trade routes. Sailors will need to be recruited and trained in far larger numbers. America will have to revive its merchant marine fleet to have any hope of moving sufficient troops and equipment in a Pacific war.

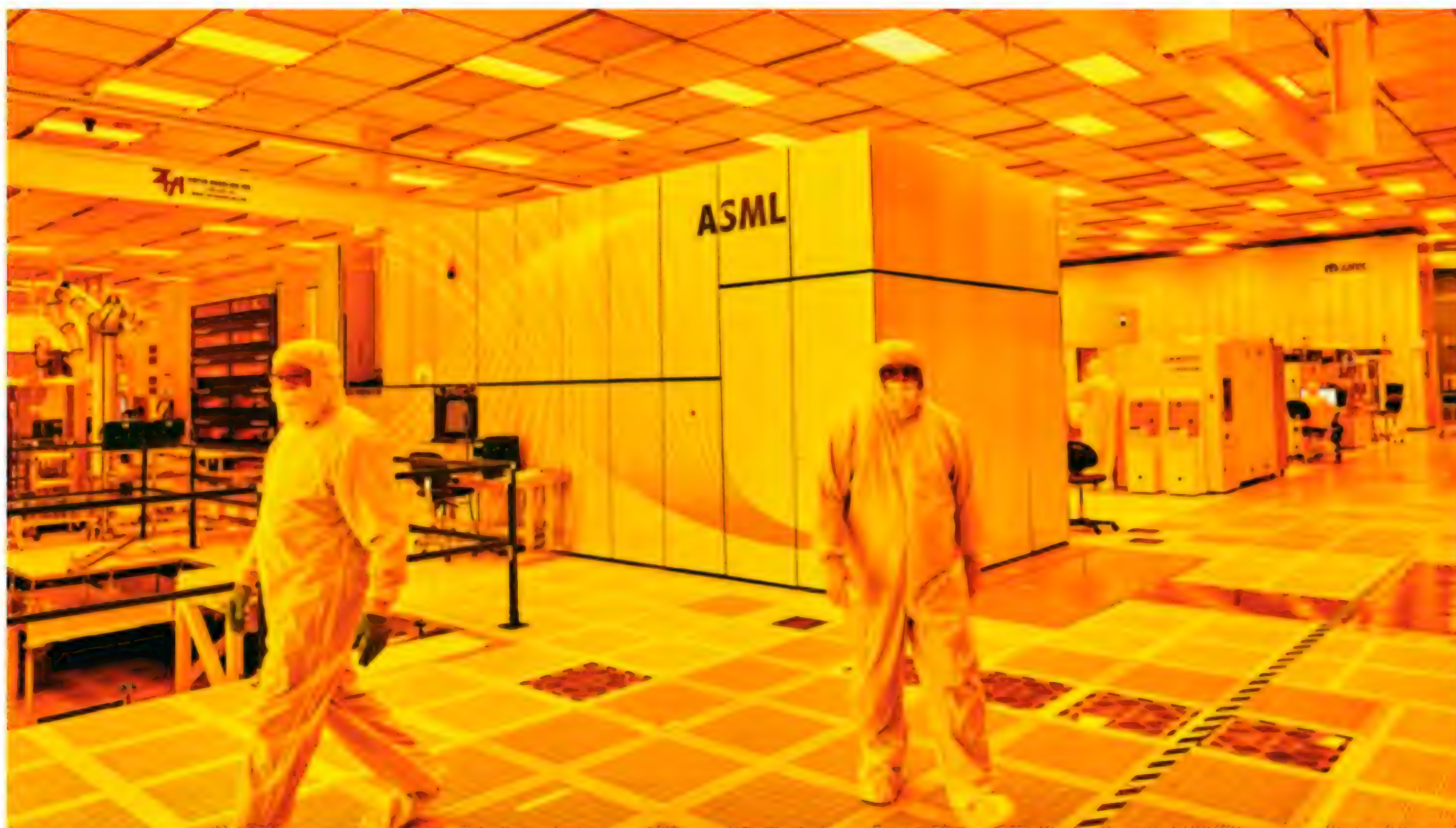
In his book on the Battle of Jutland, the indecisive naval battle of the first world war, Andrew Gordon, a historian, sought to explain what went wrong for the Royal Navy. The issue, he concluded, was the “long, calm lee of Trafalgar”. Britain’s naval victory over Napoleon in 1805 gave way to a long period of complacency and drift. In 1916 none of Britain’s admirals had waged a major war. Command of the seas was taken for granted among the military elite. That resonates today. “You’re seeing the long, calm lee of the second world war,” warns Mr Childs. The churning waters of the Black Sea, Red Sea and South China Sea suggest a storm now approaches instead. ■

A photograph of two women in a warehouse setting. The woman on the left is wearing a dark polo shirt and has her hair in a bun. The woman on the right is wearing a light blue button-down shirt and has long, curly hair. They are both looking down at a tablet held by the woman on the right. The background shows industrial shelving and equipment. A semi-transparent pink arrow graphic points from the top right towards the bottom left, passing behind the text.

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Technology

Silicon lowlands

NEUKÖLLN AND VELDHOVEN

ASML, a mighty Dutch semiconductor firm, is at the heart of a critical supply chain

TEN TIMES a second an object shaped like a thick pizza box and holding a silicon wafer takes off three times faster than a manned rocket. For a few milliseconds it moves at a constant speed before being halted abruptly with astonishing precision—within a single atom of its target. This is not a high-energy physics experiment. It is the latest lithography machine dreamed up by ASML, a manufacturer of chipmaking tools, to project nanoscopic chip patterns onto silicon wafers. On January 5th Intel, an American semiconductor giant, became the first proud owner of this technical marvel's initial components for assembly at its factory in Oregon.

Like the outwardly unassuming machine, its Dutch maker is full of surprises. The company's market value has quadrupled in the past five years, to €260bn (\$285bn), making it Europe's most valuable technology firm (see chart on next page). Between 2012 and 2022 its sales and net profit both rose roughly four-fold, to €21bn and €6bn, respectively. In late 2023 ASML's operating margin exceeded 34%, staggering for a hardware business and more than

that of Apple, the world's biggest maker of consumer electronics.

Such stellar performance, which is set to shine brightly again when ASML reports quarterly results on January 24th, is now routine. The firm holds a monopoly on a key link in the world's most critical supply chain: without its kit it is next to impossible to make cutting-edge chips that go into smartphones and data centres where artificial intelligence (AI) is trained. With global semiconductor sales forecast to double to \$1.3trn by 2032, every big country and every big chipmaker wants ASML's gear. The company has become so important in

the Sino-American techno-tussle that, as it recently emerged, America's government pressed ASML to cancel planned deliveries of even its older machines to China.

Yet ASML's spectacular success is also underpinned by two other, less obvious factors. The company has created a network of suppliers and technology partners that may be the closest thing Europe has to Silicon Valley. And its business model ingeniously combines hardware with software and data. These unsung elements of ASML's success challenge the notion that the old continent is incapable of developing a successful digital platform.

ASML's complex machines perform a simple task. They project chip blueprints onto photosensitive silicon wafers. In 1986, when its first model was delivered, individual transistors measured micrometres and its kit was almost like a glorified photocopier, explains Marc Hijink, a Dutch journalist and author of "Focus—How ASML Conquered the Chip World", a new book. Today, with transistors shrunk by a factor of a thousand, ASML lithography gear is possibly the most sophisticated equipment ever sold commercially.

ASML and its partners pulled off this incredible shrinking trick with engineering that has a science-fiction ring to it. The process starts with powerful lasers incinerating droplets of molten tin, each no thicker than a fifth of a human hair and travelling at more than 250kph. This produces extremely short-wavelength light (extreme ultraviolet, or EUV, in the jargon) ►►

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which is then reflected by a set of mirrors so smooth that the biggest imperfection is no bigger than the distance grass can grow in a millisecond. To make all this worth a chipmaker's while—the latest model costs more than \$300m—and expose enough chips, the object that holds the wafer, called a “table”, has to accelerate faster than a rocket and come to a stop at exactly the right spot.

To get an idea of what it takes to build such a device, pay a visit to a nondescript factory in Neukölln, a neighbourhood of Berlin. This is where ASML makes, among other things, “mirror blocks”, the main part of a wafer table. These are sturdy pieces of a special ceramic material, a square 8cm thick and measuring about 50cm on each side. Some get polished, measured, repolished, remeasured and so on, for nearly a year—until they are exactly the right shape, including allowances for the fact that they will sag by a few nanometres once installed.

The factory is emblematic of the company's unusual network of suppliers. Although its owner, Berliner Glas, was acquired by ASML in 2020, it lives halfway between being an independent company and a unit of the Dutch parent. Something similar is true of the 800 or so mostly European firms that help put together ASML's machines. ASML owns stakes in only a few of them. Yet their interdependence makes them act like a single organisation.

ASML outsources over 90% of what it costs to build one of its marvels and directly employs less than half the estimated 100,000 people the feat requires. This is partly because of its history. When it was spun out of Philips, a Dutch electronics giant, in 1984, ASML seemed stillborn. Its idea to build a “silicon stepper”, the original name of the chip-copying machine, was promising. But it had not much else going for it, in particular no production lines. It instead relied on specialist suppliers, many of them also former Philips units, such as VDL, a contract manufacturer.

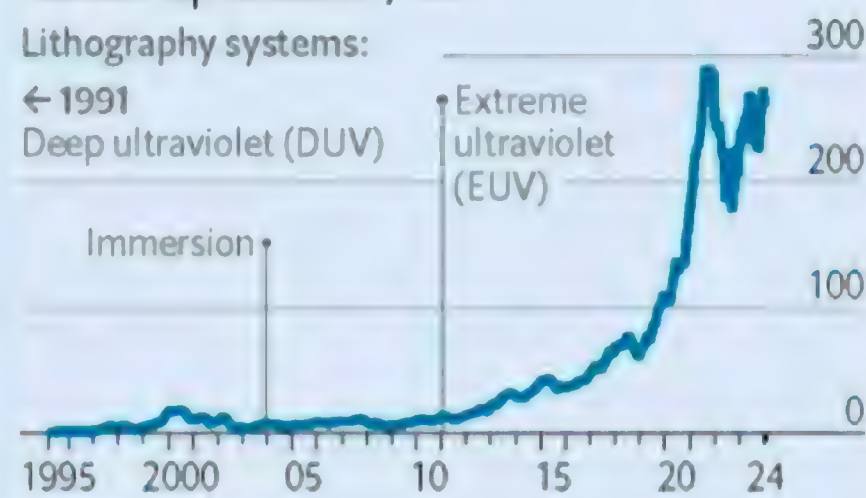
The outsourcing is also a function of technology. The different parts of a lithography machine are so cutting-edge that doing it all could overwhelm one firm. “You have to decide where you add the most value and let others do the rest,” says a former ASML insider. Semiconductor economics, too, favours not doing everything yourself. The industry is prone to booms and busts, because demand moves up and down more quickly than chipmakers can install capacity. Prices rise and fall as shortages turn to gluts. Manufacturers of chipmaking gear are exposed to the same cycle. That makes owning all the assets risky; better to shift some risk to suppliers, who can limit it by catering to customers working to different business cycles.

The required hyper-specialisation pre-

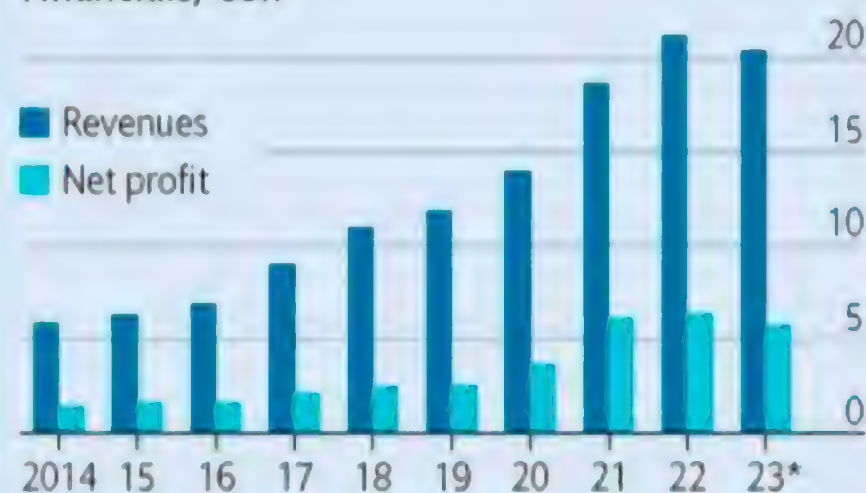
Living off the etch

ASML

Market capitalisation, €bn



Financials, €bn



Revenues from China, %



Sources: LSEG Workspace;
 company reports

*January-September
 †January-June

vents the risk-reducing double sourcing that is prevalent in many other industries. In the case of ASML, technical demands are so high and production volumes so low (it shipped 317 machines in 2022) that it would be uneconomical to manage several suppliers for a single part even if they could be found. For such crucial components as lasers and mirrors, which are made by Trumpf and Zeiss, two German firms, respectively, it is impossible. Wayne Allan, who is in charge of sourcing on ASML's board, talks of “co-dependency”.

The upshot is that ASML mostly limits itself to being the system's architect. It decides who does what, defines the interfaces between the main parts of its machines (“modules”) and carries out research and development. This set-up makes it easier to test the pieces and transport the machines (shipping the latest model to Intel involved 250 crates and 13 containers). It also gives suppliers more freedom, including to experiment with novel technologies.

It all works because ASML has cultivated a culture of trust and transparency while preserving elements of competition. Suppliers are not squeezed to the last penny. Quite the opposite: “We need them to stay

healthy,” says Mr Allan. Information flows freely throughout the network, particularly between ASML, Trumpf and Zeiss. Engineering teams from different firms work together. Patents are shared, as are some financial data and, sometimes, profits. “At meetings you can't tell who is from which firm,” reports a former Zeiss executive.

At the same time, many suppliers compete with each other indirectly, for instance providing similar parts for different generations of ASML's machines. If a supplier runs into trouble, ASML dispatches a rapid intervention force, sometimes even if such help is not welcome. As a last resort, ASML can buy a supplier, as it did with Berliner Glas.

It is this loosely coupled structure that allowed ASML to outcompete more vertically integrated rivals, reckons Willy Shih of Harvard Business School. Nikon and Canon, two Japanese firms which once led the market for lithography machines, never managed to commercialise EUV kit. (Canon is trying to stage a return with “nanoimprint” lithography, which physically stamps chip designs onto wafers.)

ASML is now entrenching this dominance by complementing its hardware with software and data. When real rockets take off, their trajectory is wobbly and needs to be smoothed out by a guidance computer, which collects data to predict and adapt their course. A wafer table in a lithography machine is similarly likely to miss the mark at first. The same is true of the rest of the device. It is only with the help of lots of data and machine learning, a type of AI, that they can be fine-tuned—and made more accurate. This is rapidly turning ASML into an AI platform.

Once Intel gets all the modules for its new machine, it will take about two weeks to put the thing together. Adapting it to its new location will take a few months. Bits may have moved in transport, gravity may be slightly different in Oregon from the Netherlands and other kit nearby may create interference. Tests will collect data and trigger adjustments. “We have thousands of knobs we can turn to put it into a perfect state,” says Jos Benschop, who is in charge of technology at ASML.

ASML also uses the data from one machine to turn the knobs of others. Of the roughly 5,500 devices it has sold since its founding 39 years ago, 95% are still in operation and many send data home to headquarters. That will make its products even better, leading to more chipmaking, which generates even more data—and so on, in a “flywheel” more typically associated with digital services such as internet search. Even if Canon, Nikon or a Chinese competitor finally managed to build EUV machines as powerful as ASML's, it would not be able to catch up with the Dutch firm, argues Pierre Ferragu of New Street Research, ➤

▶ a firm of analysts. "It's mathematically impossible, as long as ASML keeps collecting data from all the installed base."

If rivals cannot topple ASML, can anything? Maybe physics. Even with the best AI, you can't shrink transistors for ever (certainly not in a commercially viable way). If technical requirements become too otherworldly the supplier network may unravel. Or maybe economics. Chip-makers may recoil at ASML's data hunger, which extends to other linked devices in their factories. Some are pushing back against its digital expansion, insiders say.

Then there is geopolitics. ASML's share price dipped after news broke about the cancelled deliveries to China. The worry is less over lower sales; ASML cannot build its machines fast enough anyway. Of greater concern is the risk that strict export controls could in time push China to build its own chipmaking-gear industry. That could one day threaten ASML's position at the centre of the sector. For the time being, though, the company's network and its network effects remain indomitable. Who said Europe couldn't do tech? ■

German business

Labour's love lost

BERLIN

Normally harmonious labour relations are tested like never before

IN GERMANY, WHERE workers and bosses run many companies jointly, a big strike is unusual. A wave of big strikes is almost unheard of. Right now the country of "co-determination" is simultaneously facing an eight-day "action week" by irate farmers, who blocked roads with tractors, a three-day strike of railway workers and, to top it off, a looming strike of doctors, who already closed surgeries between Christmas and New Year's Day. This *Mistgabel-mop* (pitchfork mob), as some have taken to calling it, will test Germany's harmonious labour relations in the year to come.

The protests were ostensibly set off by the government's decision to end subsidies for diesel fuel used in agriculture and to cut an exemption from car tax for farm vehicles. These measures pushed farmers over the edge. It also mobilised other angry workers, already straining under the pressure of inflation, recession and the government's self-imposed austerity. On January 9th drivers of freight and passenger trains at Deutsche Bahn, the national railway, began a strike over working hours and pay.

In an effort to defuse the tension with the farmers, the government agreed to a gradual removal of the diesel subsidy over

three years and to keeping the exemption from the car tax. The farmers pooh-poohed the concessions as insufficient. On January 4th an aggressive group of them prevented Robert Habeck, the economy minister, from disembarking from a ferry on his return from a family holiday. If the train drivers are similarly unimpressed, that could prove expensive for German business, reckons Iw Köln, a think-tank. The rail strike could cost businesses €100m (\$110m) a day if it forced them to interrupt production. The car, chemical and steel industries, Germany's biggest, are especially reliant on rail transport.

The workers' mood is increasingly angry. "Appeals are circulating with fantasies of revolution," warned Mr Habeck. The far-right Alternative for Germany party is doing its best to fan the grievances. In Dresden the Free Saxons, another far-right group, infiltrated the farmers' protest calling for the "extinction of the traffic light" (as the governing coalition of the Social Democrats, Free Democrats and Greens is referred to because of their party colours).

Thomas Puls of Iw Köln fears that the strikes will harm the image of Germany as a place for business. Local bosses are already fretting about a German version of the *gilets jaunes* protests in France in 2018, which culminated in yellow-jacketed demonstrators torching cars on the Champs-Élysées and the police stepping in with tear gas. Jochen Kopelke, head of Germany's police union, warned in an interview with *Tagesspiegel*, a daily, that the farmers were probably "just the start of an enormous wave of protest this year". Germany was the only big economy to shrink in 2023, and the year ended on an especially sour note, with an unexpected drop in business confidence in December. This year is shaping up to be even tougher. ■



Green revolution

Mining

The other Saudi gold

RIYADH

The crown prince wants the kingdom to be the Saudi Arabia of minerals

IN WA'AD AL-SHAMAL, 1,200km north of Riyadh, the Saudi capital, phosphate is extracted and bathed in chemicals to turn it into an acid. From there it is shipped 1,500km east by rail to the port of Ras Al-Khair. The stuff is then made into fertiliser or its precursor, ammonia, and sails west to Brazil, south to Africa and east to India and Bangladesh, where it ends up with farmers who, according to Ma'aden, the state mining firm which runs the project, grow 10% of the world's food. The venture is vast. Its sales and domestic investment are equivalent to about 2% of the kingdom's non-oil GDP. Another similar one will soon start shipping the equivalent of another 1%.

Phosphate is not the only mineral resource Saudi Arabia is eyeing to fuel its post-oil future. On January 10th the government revised its estimate of the value of its buried mineral wealth from \$1.3trn to \$2.5trn. This includes deposits of gold, copper and zinc. By the standards of Saudi oil riches, worth perhaps \$20trn at today's prices, that looks modest. By any other measure, it is gargantuan.

Muhammad bin Salman, the kingdom's crown prince and de facto ruler, wants the country to become as indispensable for minerals, including those needed for the energy transition, as it is today for black gold. He intends to achieve this without embracing the resource nationalism that has gripped other countries, from America to Chile and China. Intrigued, mining bosses and ministers from around 80 countries had assembled in Riyadh as we published this, for the country's Future Minerals Forum. As if to prove its commitment to openness, the kingdom has signed agreements both with Russia and with America's Export-Import Bank. It expects deals worth \$20bn to be sealed at the event.

Part of the strategy looks abroad. Saudi Arabia has set up Manara Minerals, a venture backed by Ma'aden and the Saudi sovereign wealth fund. Manara will invest up to \$15bn in stakes in foreign mines. Last year it paid close to \$3bn for a 10% stake in the base metals business of Vale, a Brazilian mining giant. The Saudis are "putting their money where their mouth is," says Eduardo Bartolomeo, Vale's boss.

The bigger bet, as the phosphate complex in Wa'ad Al-Shamal shows, is domestic. Saudi Arabia is pitching itself as an investment destination (the campaign in-▶▶)

cludes ads in such unlikely places as the London Underground). In the past few years it has formed a new ministry for industry and mineral resources, waived duties on imported machinery and raw materials, reduced licence fees and royalties, offered state support for salaries and subsidised rents. It has also replaced an arcane mining law with one more like the investor-friendly codes in Australia, Botswana and Canada. Licences that took years to secure are now handed out in two months.

The result has been a sharp rise in active licences—to around 2,300, a fifth more than two years ago. About 700 of these are for exploration. Some are going to foreigners. Medium-sized or specialist outsiders such as Barrick Gold and Eurasian Resources Group have received licences to explore or have partnerships with Ma'aden. "I would rather have 50% of something than 100% of nothing," says Robert Wilt, Ma'aden's chief executive.

"To draw big players in, Saudi Arabia will need big discoveries," says Mark Bristow, boss of Barrick Gold. To that end it is investing over \$180m in incentives for exploration. The Saudi Industrial Development Fund, a government vehicle, offers to finance up to three-quarters of project costs. The kingdom is also bankrolling a \$200m effort to map its geology and create a database of resources, on top of \$500m it spent on an earlier survey. Ma'aden is doing more prospecting, too, Mr Wilt says.

The government is also training a cadre of geoscientists and engineers. Such professionals are in short supply not just in Saudi Arabia but everywhere. No amount of money can get you all the people you need today, says John Bradford of the Colorado School of Mines. To ensure Saudi Arabia can get them tomorrow, it has teamed up with American think-tanks in mining research and is working with Mr Bradford's institution to create training programmes. In November Ma'aden endowed a new undergraduate degree in mining science and engineering at King Fahd University of Petroleum and Minerals.

The princely plan may misfire. Abroad, it could run into the sort of resource nationalism it itself eschews. Partners in Africa, bruised by decades of outsiders shipping off resources without boosting development, insist that this time benefits trickle down to their economies. A partnership with Saudi Arabia must be "not just extracting the ore and taking it away", says Henry Dele Alake, Nigeria's solid-minerals minister. It would require investments in Nigerian processing and factories.

At home, Prince Muhammad's short timelines are, sceptical executives note, at odds with those typical of prospecting, mine development and mining education, all of which take years. Unlike phosphate deposits, metal ores from deeper under-

ground are harder to extract quickly. A harsh summer shuts down work for safety reasons, halting projects for three or four months a year. Little has been done to realise Saudi Arabia's potential in power-hungry processing and refining, where it could excel thanks to plentiful energy.

Last, turning the Saudi vision into reality requires a radical shift among the world's miners. In an unpredictable world, many prefer to shovel profits to shareholders rather than into risky new projects. To change this, the prince will need all his powers of persuasion. ■

Management education

A case study of negative spillovers

Is Harvard Business School too woke?

IT HAS BEEN an inhospitable winter in Boston. Following the resignation of Claudine Gay as president of Harvard University on January 2nd, her interim replacement said he could not recall "a period of comparable tension" at the institution. Ms Gay was ousted after a plagiarism scandal erupted over her academic work. But her position had been precarious for months; some donors were upset that she seemed to tolerate students' antisemitic outbursts. For conservatives, Ms Gay, who was Harvard's first black and second female president, was also a symbol of liberal elites' fixation on diversity, equity and inclusion (DEI).

The ostensibly hard-headed sorts who attend Harvard's management school, and

that school's ties to harder-headed corporate America, might be expected to insulate it from wider campus convulsions. Not quite. Businesses too are facing a DEI reckoning. As a consequence, Harvard Business School (HBS) is facing pressure on two fronts.

Students at HBS are the holders of the winning tickets in the lottery of American capitalism. On average, they arrive with five years of work experience, nearly half of them from prestigious consulting or financial firms. Two years of study for the 115-year-old institution's MBA degree all but guarantee a comfortable professional perch. Some do much better still. The fortunes of HBS alumni have helped build the school's reputation and, thanks to their generous donations, stock its coffers (combined with annual income from MBA tuition fees, executive education, a publishing business and online courses, in 2022 the school made \$966m in revenue).

After the murder of George Floyd, a black man, by a police officer in May 2020 HBS underwent a self-examination typical of other American institutions at the time. "What we could agree on is that the experience of black students at the school, as they reported upon graduation, was not quite the same as white students'. There was a deficit," says Robert Kaplan, a faculty member involved in the review. HBS's approach to DEI has since resembled that of corporate America—and of the rest of Harvard. In 2021 it hired a chief diversity-and-inclusion officer and tried to increase the diversity of the student body and faculty.

Bringing DEI into the business-school classroom has been more controversial. Compared with the rest of the university, HBS faculty are probably less woke. The pressure for more DEI came mostly from students, recounts a professor. And if the



aim of management education is even partly to simulate the challenges faced by grown-up executives, it is hard to imagine a curriculum ignoring such issues entirely. America's demography is changing, and so are employees' expectations about what their workplace ought to look like. The current backlash against DEI policies requires bosses to be far more thoughtful about how they approach them. It is requiring the same of business schools. That is easier said than done.

MBA students at HBS are taught using the "case method". Classes ask students to put themselves in the shoes of bosses facing a specific problem. Since 2020 students have complained that those shoes do not fit. The result has been a significant increase in the ethnic and gender diversity of the case "protagonists". But, as one faculty member notes, "the idea that you would be studying a chief financial officer doing a discounted-cashflow model, substitute a white man for a black woman, and then high-five all around is ridiculous."

HBS made a course called "inclusion" compulsory for first-year MBA students in the academic year of 2021-22. A version of it, which focused heavily on race and gender, had previously been optional; "We heard from the students that you're teaching the course to the people that don't need it," says a faculty member with knowledge of the course. But many students and staff felt the new course lacked rigour and, partly because it was taught to a single group of 1,000 people, discouraged discussion.

Echoing worries about free speech on other campuses, professors whisper that conservative and religious students feel less able to speak up more generally. The view is supported by the results of a student survey shown to faculty last year. Shortly after the attacks on Israel on October 7th and the invasion of Gaza, Bill Ackman's comments about the war and Harvard's campus politics caused some HBS students to lobby the school to disinvite the billionaire investor (and HBS graduate) from appearing on campus as a "protagonist" in a case about his hedge fund.

As in boardrooms, HBS's thinking on DEI is in flux. The inclusion course was first redesigned, to less damning reviews, then shelved. In June 2023 Francesca Gino, one of its architects, was put on unpaid administrative leave after accusations of fraud in her work (she has filed a lawsuit against Harvard University alleging breach of contract and gender-based discrimination). In the end, Mr Ackman did visit. Like America Inc, HBS is learning to walk the DEI tightrope—the hard way. ■

Correction In "Unsustainable developments" (December 9th) and the accompanying leader, "Power trip", we incorrectly stated that the European Parliament had already passed the Net Zero Industry Act. In fact, it is still negotiating it.

Boeing

Can't exit emergency

Faulty door plugs open old wounds at the American planemaker

NERVOUS TRAVELLERS will break out in a cold sweat to see pictures of a gaping hole in the fuselage of an Alaska Airlines Boeing 737 MAX 9, blown out at 15,000 feet (4,600 metres) after the plane had taken off over Oregon on January 5th. Nervous investors will have the same reaction to the share prices of Boeing and Spirit AeroSystems, a firm spun off by the planemaker in 2005. Spirit manufactured the fuselage and the failing part, a plug in the airframe where some MAX 9 models can have an emergency exit. The two companies' market value plunged by 8% and 11%, respectively, following the incident.

Miraculously, no one was seriously injured; had the aircraft rapidly depressurised at a higher altitude the outcome could have been worse. The precise cause of the malfunction remains unclear. The plane, delivered to Alaska Airlines on November 11th, was brand-new. Similar unused emergency exits were installed on a previous version of the 737 without problems.

Regulators around the world have grounded the entire fleet of MAX 9s with the same door plug, pending inspections to ensure their airworthiness. Early indications suggested a one-off manufacturing problem originating at Spirit. But on January 8th United Airlines said that preliminary examinations had identified other planes with "installation issues" connected with the door, such as "bolts that needed additional tightening". This indicates a "pattern of poor workmanship" at Spirit over which Boeing should have had better oversight, says Bernstein, a broker.

Thankfully for Boeing, its airline customers and their passengers, fastening the



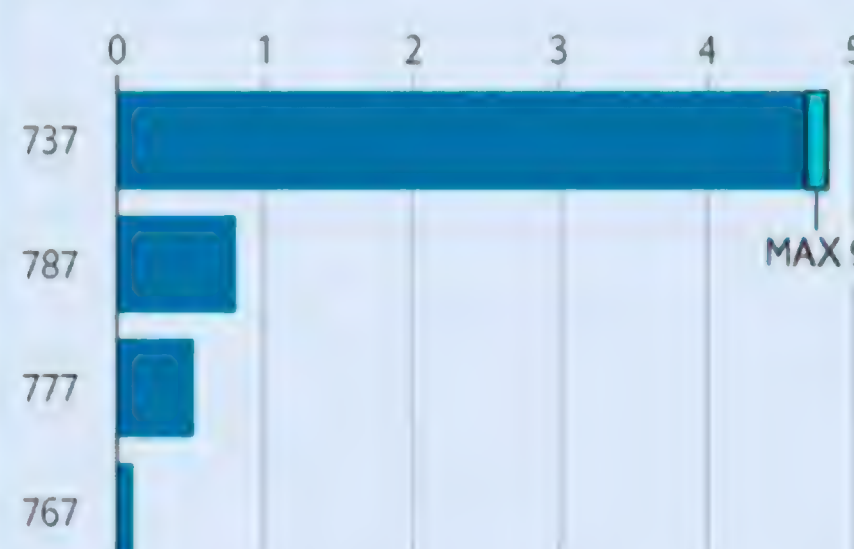
loose bolt should not be too difficult. The MAX 9, a larger version of Boeing's short-haul workhorse, makes up just over 15% of all 737 MAXes in service, and an even smaller share of unfilled orders (see chart 1). Only four out of five of the existing MAX 9 fleet, or 171 aircraft in all, have the unused exits. The bigger problem for Boeing is that the episode reinforces the impression that it has lost its way.

The descent of America's once high-flying aerospace champion began in October 2018, when a 737 MAX crashed in Indonesia. Five months later the same model crashed in Ethiopia. Both disasters were linked to problems with flight-control software and led to the grounding of the entire 737 MAX fleet for 20 months while the software was fixed. Boeing paid around \$20bn in fines and compensation. Critics alleged that the company was paying too much attention to returning money to shareholders and not enough to engineering. A new chief executive brought in at the start of 2020 to salvage Boeing's image, Dave Calhoun, promised to return the firm to its roots of technical excellence.

The door drama is only the latest sign that Mr Calhoun's task remains incomplete. Deliveries of Boeing's long-haul 787 Dreamliner have been suspended several times in the past few years because of qual- ➤

Mini MAX

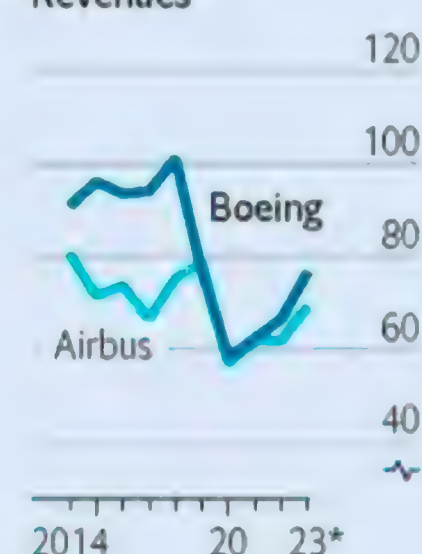
Boeing, unfilled aircraft orders, '000
At December 31st 2023



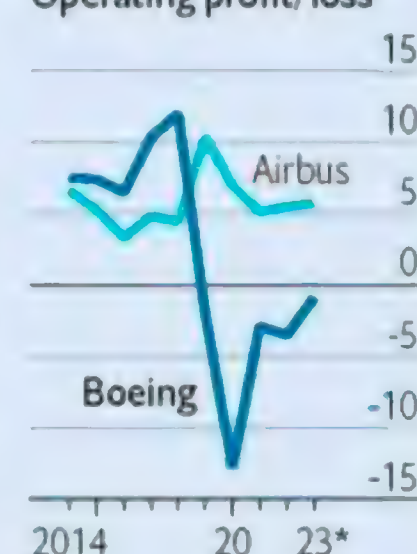
Sources: LSEG Workspace; company reports

Financials, \$bn

Revenues



Operating profit/loss



*Estimate

► ity-control problems. In April 2023 the company said it would have to fix the vertical stabilisers on 737s in production at Spirit and in storage. Although it was not a safety risk, the defect put another dent in Boeing's reputation. Another knock came in August, when the planemaker said it would need to correct improperly drilled holes in part of the pressurised cabin of 165 737 MAXes assembled by Spirit. Ironing out manufacturing niggles is one reason that deliveries of Boeing's 777X, another long-haul jet, will begin only in 2025, six years behind schedule.

The 777X delay alone has set the company back at least \$8bn in extra costs. The close call over Oregon will pile on more, by forcing it to spruce up production processes. Boeing has not turned an annual profit since 2018. It lags behind its European arch-rival, Airbus, in orders for short-haul jets by 4,800 to 7,300. It is struggling to rehire skilled workers laid off during the covid-19 lull as it tries to increase production of the 737 MAX from 38 a month to 50 by 2025-26, in order to meet strong demand from airlines dealing with a surge in post-pandemic "revenge" flying.

Some of Boeing's woes on Mr Calhoun's watch were beyond his control. Soon after he took over at the start of 2020, covid sent the industry into a tailspin. Both Boeing and Airbus lost roughly half their market capitalisation between March and autumn of that year. But whereas Airbus shares are now trading at an all-time high, Boeing's are worth half what they were at their peak in early 2019 (see chart 2 on previous page). If the American planemaker is to soar again, Mr Calhoun will need not just to respond to problems but also to stop any new ones emerging. ■

Bartleby Rivals and colleagues

How managers should balance competition and co-operation

THE MODERN company exalts both competition and co-operation. Competition is the defining feature of markets; inside organisations, too, employees compete for limited resources. Sometimes that contest is obvious, as when performance is openly ranked or there is a race for a specific job. Sometimes it is left unspoken: there is only so much money to go round and only so many promotion opportunities on offer. Either way, competition is always there.

Yet the reason firms exist is to co-ordinate the activities of many actors in pursuit of common goals. Departments and teams are expected to work together. Collaborative behaviour is usually celebrated. Companies dole out awards for the most helpful co-workers, not the Macbeth prize for the colleague most likely to murder you in your sleep.

Rivalry and teamwork can go together nicely. A paper published in 2022 by Eric VanEpps of the University of Utah, Einav Hart of George Mason University and Maurice Schweitzer of the University of Pennsylvania looked at the best way to handle an old conundrum. To make a good impression on the higher-ups, you need to highlight your own achievements. But bragging about how great you are is not a recipe for being liked. A strategy of taking the credit for some things and doling out praise to colleagues for others resolved this problem.

It is not easy for managers to strike the right balance between encouraging contests and collaboration. (You just need to hear the word "co-opetition" to know how ugly things can get.) Competition can spur more effort but it can also have unintended consequences.

A recent study by Eddy Cardinaels of Tilburg University and Christoph Feichter of the Vienna University of Econom-

ics and Business asked supervisors to use a forced performance-ranking system to assess workers' creativity. Forced rankings require managers to assign employees to given places on a scale: if there are ten workers, say, then one must come top and one must come tenth. This approach just stressed everyone out—a bit like bellowing "relax" in someone's face. People tried harder but they also became less creative.

In a literature review published in 2020 Gavin Kilduff of the Stern School of Business at New York University, Blythe Roskiewicz of West Chester University and Christopher To of Rutgers University concluded that competition is more likely to backfire when people feel threatened: for example, when the costs of losing are high or when people are competing against others known to be better at the task in question. But even when the stakes are low, explicit competition can backfire.

In an experiment conducted by Jeffrey Carpenter of Middlebury College and his co-authors in 2007, participants were asked to stuff envelopes. When people were paid a bonus for stuffing the most

envelopes, they worked harder than if they got a flat per-envelope fee. But when they were also given a chance to sabotage their peers to get ahead, the (correct) expectation that they themselves would be sabotaged made people work less hard than if they had got piece-rate pay.

Such behaviour arises because many people—and many of them men, since women tend to be less taken by the prospect of all-out competition—like winning for its own sake. This organic aspect to competition also shows up in rivalries between individuals. Workers tend naturally to benchmark themselves against their peers in the race for status and seniority; they don't need an excuse.

These specific rivalries can be especially motivating. A paper from 2018 by Adam Galinsky and Brian Pike of Columbia Business School and Mr Kilduff found that teams in a range of American sports performed better the year after an intense rival did well in tournaments. In another study, Lisa Ordóñez of the University of Arizona and Messrs Kilduff, Schweitzer and To analysed American-football games and found that teams were more likely to take risky on-field decisions against fierce rivals. Particular opponents encourage greater risk-taking than generic competition, at least if you are a very large man in tights.

All of which argues for a restrained approach to encouraging competition. Balance individual incentives with group ones. If you are going to rate performance, make sure the measures are clear, objective and fair. Think about when risk-taking is more desirable (sales, say) and less desirable (clinical trials). By their nature organisations crackle with competitiveness. Adding a bit of fuel to the fire can be fine. Spraying petrol everywhere is unnecessary.



Schumpeter | School experiments

AI is giving techies another shot at transforming education



AS PUPILS AND students return to classrooms and lecture halls for the new year, it is striking to reflect on how little education has changed in recent decades. Laptops and interactive whiteboards hardly constitute disruption. Many parents bewildered by how their children shop or socialise would be unruffled by how they are taught. The sector remains a digital laggard: American schools and universities spend around 2% and 5% of their budgets, respectively, on technology, compared with 8% for the average American company. Techies have long coveted a bigger share of the \$6trn the world spends each year on education.

When the pandemic forced schools and universities to shut down, the moment for a digital offensive seemed nigh. Students flocked to online learning platforms to plug gaps left by stilted Zoom classes. The market value of Chegg, a provider of online tutoring, jumped from \$5bn at the start of 2020 to \$12bn a year later. Byju's, an Indian peer, soared to a private valuation of \$22bn in March 2022 as it snapped up other providers across the world. Global venture-capital investment in education-related startups jumped from \$7bn in 2019 to \$20bn in 2021, according to Crunchbase, a data provider.

Then, once covid was brought to heel, classes resumed much as before. By the end of 2022 Chegg's market value had slumped back to \$3bn. Early last year investment firms including BlackRock and Prosus started marking down the value of their stakes in Byju's as its losses mounted. "In hindsight we grew a bit too big a bit too fast," admits Divya Gokulnath, the company's co-founder.

If the pandemic couldn't overcome the education sector's resistance to digital disruption, can artificial intelligence? ChatGPT-like generative AI, which can converse cleverly on a wide variety of subjects, certainly looks the part. So much so that educationalists began to panic that students would use it to cheat on essays and homework. In January 2023 New York City banned ChatGPT from public schools. Increasingly, however, it is generating excitement as a means to provide personalised tutoring to students and speed up tedious tasks such as marking. By May New York had let the bot back into classrooms.

Learners, for their part, are embracing the technology. Two-fifths of undergraduates surveyed last year by Chegg reported

using an AI chatbot to help them with their studies, with half of those using it daily. Indeed, the technology's popularity has raised awkward questions for companies like Chegg, whose share price plunged last May after Dan Rosensweig, its chief executive, told investors it was losing customers to ChatGPT. Yet there are good reasons to believe that education specialists who harness AI will eventually prevail over generalists such as OpenAI, the maker of ChatGPT, and other tech firms eyeing the education business.

For one, AI chatbots have a bad habit of spouting nonsense, an unhelpful trait in an educational context. "Students want content from trusted providers," argues Kate Edwards, chief pedagogist at Pearson, a textbook publisher. The company has not allowed ChatGPT and other AIs to ingest its material, but has instead used the content to train its own models, which it is embedding into its suite of learning apps. Rivals including McGraw Hill are taking a similar approach. Chegg has likewise developed its own AI bot, called CheggMate, that it has trained on its ample dataset of questions and answers.

What is more, as Chegg's Mr Rosensweig argues, teaching is not merely about giving students an answer, but about presenting it in a way that helps them learn. Understanding pedagogy thus gives education specialists an edge. Pearson has designed its AI tools to engage students by breaking complex topics down, testing their understanding and providing quick feedback, says Ms Edwards. Byju's is incorporating "forgetting curves" for students into the design of its AI tutoring tools, refreshing their memories at personalised intervals. Chatbots must also be tailored to different age groups, to avoid either bamboozling or infantilising students.

Specialists that have already forged relationships with risk-averse educational institutions will have the added advantage of being able to embed AI into otherwise familiar products. Anthology, a maker of education software, has incorporated generative-AI features into its Blackboard Learn program to help teachers speedily create course outlines, rubrics and tests. Established suppliers are also better placed to instruct teachers on how to make use of AI's capabilities.

AI for effort

Bringing AI to education will not be easy. Although teachers have endured a covid-induced crash course in education technology, many are still behind the learning curve. Less than a fifth of British educators surveyed by Pearson last year reported receiving training on digital learning tools. Tight budgets at many institutions will make selling new technology an uphill battle. AI sceptics will have to be won over, and new AI-powered tools may be needed to catch AI-powered cheating. Thorny questions will inevitably arise as to what all this means for the jobs of teachers: their attention may need to shift towards motivating students and instructing them on how to best work with AI tools. "We owe the industry answers on how to harness this technology," declares Bruce Dahlgren, boss of Anthology.

If those answers can be provided, it is not just companies like Mr Dahlgren's that stand to benefit. An influential paper from 1984 by Benjamin Bloom, an educational psychologist, found that one-to-one tutoring both improved the average academic performance of students and reduced the variance between them. AI could at last make individual tutors viable for the many. With the learning of students, especially those from poorer households, set back by the upheaval of the pandemic, such a development would certainly deserve top marks. ■



International commerce

Steel yourself

SINGAPORE

Xi Jinping's search for economic growth risks setting off another trade war

CHINA'S LEADERS are obsessed with lithium-ion batteries, electric cars and solar panels. These sorts of technologies will, Xi Jinping has proclaimed, become "pillars of the economy". He is spending big to ensure this happens—meaning, in the years to come, that his ambitions will be felt across the world. A manufacturing export boom could very well lead to a trade war.

Mr Xi's manufacturing obsession is explained by the need to offset China's property slump, which is dragging on economic growth. Sales by the country's 100 largest real-estate developers fell by 17% in 2023, and overall investment in residential buildings dropped by 8%. After a decade in which capital spending on property outstripped economic growth, officials now hope that manufacturing can pick up the slack. State-owned banks—corporate China's main source of financing—are funneling cash to industrial firms. In return for an extension of pandemic-era tax breaks and carve-outs for green industries, ex-

porters in powerhouse provinces have been told to expand production. During the first 11 months of 2023 capital spending on smelting metals, manufacturing vehicles and making electrical equipment rose by 10%, 18% and 34%, respectively, compared with the same period in 2022.

Such developments will be prompting flashbacks among veteran Western policymakers. China's rise was accompanied by an epochal shift in global trade. In the decade that followed the country's accession to the World Trade Organisation in 2001, its

exports rose by more than 460%. China became the number-one target for accusations of dumping—selling goods abroad at lower prices than at home—in industries including chemicals, metals and textiles. Although low-cost goods were great news for consumers, they were less welcome for some rich-world industrial workers. It later became fashionable to blame the "China shock", which led to lay-offs in affected industrial areas, for contributing to Donald Trump's electoral victory in 2016.

The coming manufacturing boom could be even larger, given the sheer scale of the Chinese economy, which has doubled in size over the past decade. Michael Pettis of Peking University notes that even if China simply were to maintain the current size of its manufacturing sector, which accounts for 28% of GDP, and were to achieve its target of 4-5% GDP growth over the next decade, its share of global manufacturing output would rise from 31% to 36%. If Mr Xi's ambitions are fulfilled, the increase will be bigger still.

China's capital investment, which is more than double America's as a share of GDP, is funded by its thrifty households and their saving piles. During earlier manufacturing booms, some observers had expected the country's consumers to use these savings to splurge on goods, only to be proved wrong. Consumers are likely to continue to prefer saving to spending. In ►►

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▶ 2023 private consumption rose by 10%, rebounding from a grim 2022. But most analysts now expect much slower overall growth, owing to tumult in the property market and the government's wariness about borrowing to support household incomes. In the absence of higher private consumption, "policymakers would need to bring the economy down much faster to correct overcapacity", says Alicia Garcia-Herrero of Natixis, a bank. "It would have to grow at 3-4%, not 5%." Alternatively, if the higher rate of growth is to be sustained, more goods will have to be sold abroad.

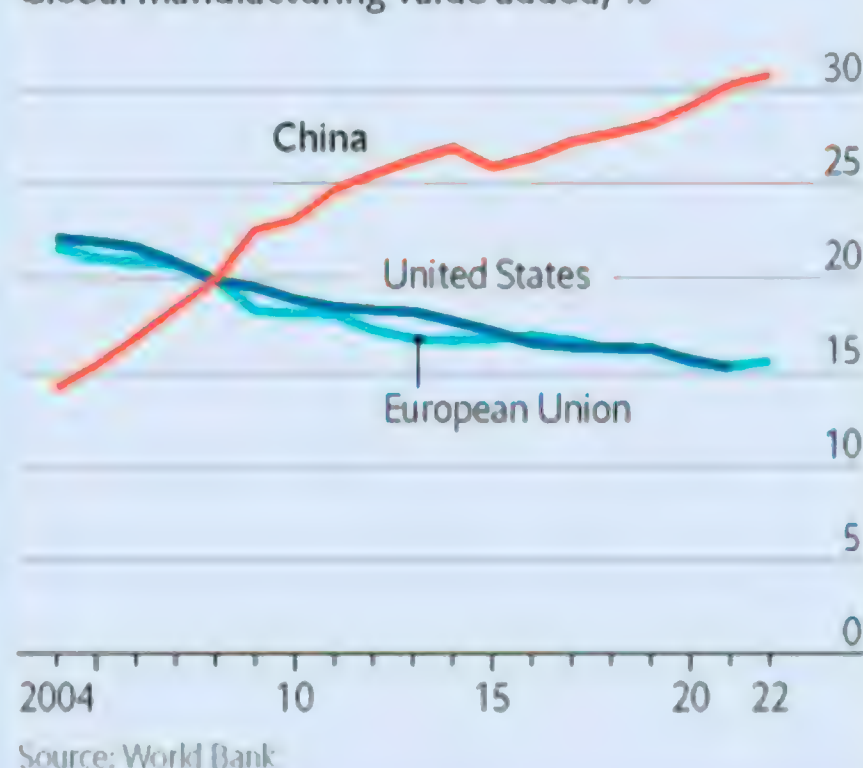
It will help that they are getting cheaper—as can be seen in the steel market, which is vital for China's car and renewable industries. Early last year investors expected output to fall, as Chinese construction flagged. Instead, in a remarkable feat, the country's steel giants produced more metal even as the property industry suffered. Steel mills, which have access to cheap capital, are willing to take considerable losses in order to preserve market share.

As a result, industrial prices fell by 2% in the first 11 months of 2023, and profits by 4%. In 2012, during a previous era of manufacturing stimulus, overcapacity meant that the profit on a couple of tonnes of steel "was just about enough to buy a lollipop", according to Yu Yongding, an economist. Many producers are now heading for a similar situation. An employee at a supplier in Shanghai estimates that some are losing about 350 yuan (\$50) on each tonne of steel reinforcement they sell. Meanwhile, renewable firms, such as LONGi, the world's largest solar-equipment manufacturer, and Goldwind, a wind-turbine maker, are also suffering. Both reported sharply lower profits in the third quarter of 2023.

It is not only China's industrial prices that are falling—the country's currency is, too. The yuan is down by 9% on a trade-weighted basis since its peak in 2022, meaning that overseas competitors face a double whammy. At the same time, Western politicians are more willing to fight on behalf of domestic firms than during the

It can go higher

Global manufacturing value added, %



last era of Chinese manufacturing stimulus. Attitudes towards Chinese exports have hardened. Western countries are both more protective of their domestic industrial bases and more sceptical that China will eventually become a market economy.

Frictions are already starting to develop. In November Britain launched a probe into Chinese excavators, after JCB, a local firm, alleged that Chinese rivals were flooding the market with cut-price machines. The EU is conducting an anti-subsidy probe into Chinese electric vehicles and an anti-dumping probe into Chinese biodiesel. The Biden administration has asked the EU to tax Chinese goods, offering to drop American tariffs on European steel in return. On January 5th China decided to hit Europe where it hurts, announcing an anti-dumping investigation into brandy.

And it is not just the rich world that is getting angry. In September India imposed fresh anti-dumping duties on Chinese steel; in December it introduced new duties on industrial laser machines. Indeed, almost all the anti-dumping investigations that India's trade authorities are now conducting concern China. On the other side of the world, Mexico is in a tricky spot. It benefits from decisions by Chinese companies to move production in order to avoid American tariffs, but it also wants to avoid domestic markets being flooded by subsidised imports. It seems the latter is now taking precedence. In December the government announced an 80% tariff on some imports of Chinese steel.

China's leadership has little room for manoeuvre. In December officials issued a statement calling industrial overcapacity, exacerbated by weak domestic demand, one of the biggest challenges facing the economy. Given the numerous other challenges facing the economy, they can hardly afford to alienate more of China's trading partners with fights over dumping and subsidies. Unfortunately, the alternative—a new year with nothing to offset the property mess and lacklustre consumer spending—may be even less attractive. ■

Chinese ideology

Changes unseen

SHANGHAI

The Communist Party's economic jargon is increasingly important

A NEW COMMUNIST PARTY slogan was born on January 9th. The phrase, which appeared on the front page of the *People's Daily*, a party mouthpiece, defies easy interpretation. A loose translation might read "nine issues that must be grasped". As is typical of party-speak, it has been abbreviated into a three-syllable catchphrase: *jiu ge yi*. The issues it refers to include other slogans, such as "breaking free from the historical cycle of rising and falling" and "taking the lead of the great social revolution as the fundamental purpose". Only by fathoming such principles can one engage in "self-revolution"—yet another slogan, focused on combating corruption.

These buzzwords do not roll off the tongue. They are oblique and often resistant to decryption. Normal folk frequently ignore them. They represent, however, the language of party power—"the very currency on which [the party] to a large extent depends", says David Bandurski of China Media Project, a research group. The jargon sets the tone for economic campaigns. It even defines entire epochs of growth. At a time when China's leaders are attempting to drag the economy from the doldrums, there is even more reason than normal to pay attention to party-speak.

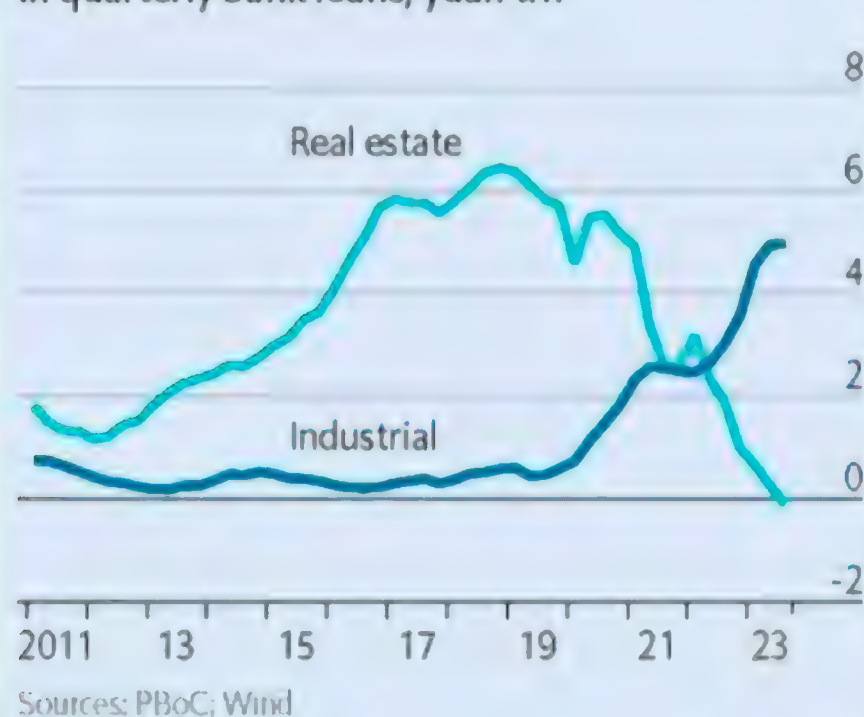
Apparatchiks reserve the right to define their buzzwords. But Xi Jinping, China's supreme leader, has elevated the importance of ideology in everyday life and busi- ▶▶



Self-revolving

Property problems

China, year-on-year change in quarterly bank loans, yuan trn



ness, meaning that economists and industry analysts have spent more time poring over the language, often making interpretations of their own. “Common prosperity”, for example, became the most-discussed phrase of 2021. It was interpreted by some investors as a backlash against the wealthy. Then it seemed to fizzle out. To date, no official definition has been given.

“High-quality development” courted similar controversy in the first week of 2024. Its mention in Mr Xi’s New Year’s address, and the fact that he uttered the phrase twice as often in 2023 as in the previous year, according to Bloomberg, a news service, has both pleased and perplexed economists. Some believe that it signals greater investment in advanced technology, which could help stimulate growth. Others think it might de-emphasise China’s traditional growth engines, such as low-end manufacturing, and indicate increased tolerance for slower growth.

Such confusion is not enough to stop party-speak spreading. Since Mr Xi first used the words “profound changes unseen in a century” during a policy address in 2018, they have become common in local policy documents. Officials in Hong Kong have started using them. Chinese brokers drop the phrase into notes for clients. Although the term is often thought of as a political buzzword, some experts are now trying to fit it into economic policy. Analysts at CICC, an investment bank, have offered up a succinct definition. According to them the “changes unseen” include “competition among major countries, the outbreak of a once-in-a-century pandemic, climate change and green transformation, the wealth gap and ageing population”. Who knows whether they are right?

Many of the party’s phrases have become sweeping ideologies that cover swathes of society and the economy. An increasingly popular one—“national rejuvenation under the new-era system”—is focused on restoring China’s economic and cultural place in the world. Despite this fearsome designation, it can nevertheless be used to explain many positive trends that have taken place under the leadership of Mr Xi, not least China’s rapid economic growth. The “Chinese path to modernisation” is similarly expansive and vague. At a state-organised salon in Shanghai on January 10th, a panel of experts talked at length about how foreign investment, private enterprise and even youth travel all fit into this Chinese path.

For the moment, it is unclear what the party has planned for *jiu ge yi*. It may become part of the war on corruption, says Manoj Kewalramani, who publishes a newsletter interpreting the *People’s Daily*. If so, it will start appearing on banners across the country. Its omnipresence will not make it any easier to understand. ■



Trade and prices

Bottle job

Will spiking shipping costs cause inflation to rise once again?

WHEN ECONOMISTS talk about bottlenecks, they typically refer to points in a supply chain that slow down production. The global economy is at present providing a rather literal example of the metaphor. It is as if someone has put a cork in the Suez and Panama canals.

In normal times, the canals carry about 10% and 5% of maritime global trade respectively. Now the Panama Canal Authority has capped the number of ships that may traverse its channel, owing to low water levels. Attacks by Houthi militants on ships in the strait of Bab al-Mandab, part of the passage from the Indian Ocean to the Suez Canal, have prompted some of those travelling between Europe and Asia to take the longer route round Africa instead.

Given that the rich world at last appears to be defeating inflation, this is making

policymakers nervous. Rising shipping prices from mid-2020 to early 2022 coincided with the surge of inflation in the first place. Their subsequent fall coincided with its decline. Since the Houthi attacks on ships began in November, prices have once again jumped. According to the Freightos Baltic Index (FBX) the cost of shipping a standard container rose by 93% in the week to January 9th. Drewry, a consultancy, notes that for the Shanghai to Rotterdam route, which would usually pass through the Suez Canal, the cost jumped by 114% to \$3,577 over a similar period.

But a repeat of pandemic-era inflation is unlikely. The shipping snarl-up is not yet on the same scale as last time (see chart). Although the FBX is rising, it is only at a quarter of the peak reached in 2022. In September 2021 respondents to a survey of purchasing managers conducted by S&P Global Ratings, a data provider, were 17 times more likely than the long-run average to say that shipping costs were contributing to higher prices. In the latest survey they were only three times more likely.

Future surveys may well indicate more concern. Annual shipping contracts are typically agreed in March, notes Chris Rogers of S&P, meaning that current rates do not reflect the true cost of transport. If disruption lasts until contracts are renegotiated this could swiftly change, he adds.

Ultimately, though, the inflationary impact of bottlenecks reflects the degree of mismatch between supply and demand. Economists at the annual meeting of the American Economic Association, held

Freightening

Global container-freight costs, \$'000
Per 40-foot container



Sources: Freightos Baltic Index; LSEG Workspace

Buttonwood How to land a blow

Bill Ackman takes on Harvard University, and offers a lesson in activist investing

AS WITH EVERY skirmish in America's culture wars, how you view the ousting of Harvard University's president has much to do with where you are sitting. Claudine Gay resigned on January 2nd. Progressives see her as a competent administrator who, as Harvard's first black president, was subjected to a smear campaign. Conservatives, meanwhile, spy a plagiarist who failed to quash antisemitism on campus. Naturally, your columnist—perched at a Bloomberg terminal—views the episode in its true light: as a blood-on-the-carpet coup by an experienced activist investor, disposing of an errant chief executive.

The investor in question is Bill Ackman, one of Wall Street's more outspoken hedge-fund bosses. He is also one of Harvard's more generous donors, having given it \$50m. And he has spent recent months on the warpath, berating the university for failing to protect Jewish students from antisemitic attacks.

Then came a congressional hearing in which Ms Gay and two other university presidents prevaricated over whether calling for a genocide of Jews would violate their institutions' codes of conduct. "The world will be able to judge the relative quality of the governance" at the three schools, Mr Ackman wrote, "by the comparative speed with which their boards fire their respective presidents." A month on, two of the three are gone.

Although Mr Ackman's fund prefers "quiet, constructive engagements" with the companies it owns, he made his name as a fearsome boardroom brawler. Over the years he has picked high-profile fights with America's Municipal Bond Insurance Association, the Canadian Pacific railway and Target, a retail giant. Unsurprisingly, then, his most recent campaign bore all the hallmarks of a

veteran activist heading into battle—and carries lessons for how to win one.

First, and most important, make sure you are in good company. Mr Ackman was just one of many to go after Ms Gay, making the tactics of a successful campaign much easier to deploy. The obvious one is financial pressure: Mr Ackman says he is aware of \$1bn-worth of donations being withheld from the university since October 7th. That sort of firepower is a lot easier to muster if you are acting in concert with others. Think of the pack of hedge-fund managers George Soros assembled to short the pound in the 1990s.

Strength in numbers also made the second line of attack—forensic analysis of the opponent—more deadly. Activist short-sellers (a group that once included Mr Ackman) obsessively comb through their targets' accounts; one of them, Carson Block, talks of reading many years of call transcripts, starting with the oldest. In the Harvard mess it was Mr Ackman's fellow travellers, such as Christopher Rufo, a conservative activist, who trawled through Ms Gay's work to find lines appar-

ently copied from others without attribution. It was ultimately these accusations of plagiarism that toppled her. While others reviewed the documents, Mr Ackman was freed up to do his own due diligence, meeting hundreds of Harvard students and faculty members to establish how insiders viewed events.

No amount of allies, though, can help with the third requirement for an activist campaign: bloody-mindedness. Whatever the target, they are unlikely to be broken by the initial salvo—and may fire back. In 2021 Andrew Left, another short-seller, decided to quit the scene after furious meme-stock investors sent threatening messages to his children. Sure enough, Mr Ackman is now embroiled in a much bigger feud. On January 4th Business Insider, a news site, accused his wife, a former professor at the Massachusetts Institute of Technology, of a "similar pattern of plagiarism" to Ms Gay's. Suspecting the allegation came from MIT, Mr Ackman responded by promising a plagiarism review of everything published by the university's president, board and faculty.

For all its admirable chutzpah, the escalation points to danger ahead. Mr Ackman began by trying to combat antisemitism at Harvard by unseating a president who seemed soft on it. He now appears to be gearing up for a fight with much of America's academic establishment over plagiarism, diversity policies and the future path of higher education. This scope may seem plausible to a man who rose to prominence by shorting the American mortgage market. Yet the best activist campaigns have specific aims and endpoints—and tend not to be fought against people with tenure. Even for Mr Ackman, his new venture will prove a tall order.



▶ from January 5th to 7th in San Antonio, Texas, discussed a number of papers on this topic. According to one, presented by Oleg Itskhoki of the University of California, Los Angeles, price growth as a result of bottlenecks during covid-19 was more persistent in America than elsewhere.

Other papers suggest why this was the case. One, outlined by Ana Maria Santacreu of the St Louis branch of the Federal Reserve, found that in countries where governments provided more fiscal stimulus, such as America, the post-pandemic reopening did less to alleviate supply-chain

bottlenecks than elsewhere. "Supply constraints bind during periods of high demand," she concluded. Another paper, presented by Callum Jones, an economist on the Federal Reserve's board, agreed with the conclusion. Bottlenecks explained about half the rise in inflation from 2021 to 2022, his work found, but that was because they exacerbated loose monetary policy.

Although difficulties in the Suez and Panama canals echo recent history, the context is very different. Rich-world policymakers are no longer attempting to use fiscal and monetary policy to juice de-

mand. The global economy is also not trying to adjust to a shift from services to goods, which economists considered another culprit for snarled supply chains.

In the most recent S&P survey respondents were 50% less likely to point to higher demand as a reason for extra costs than the long-run average; two years ago they were 75% more likely to do so. As a consequence, business leaders are more relaxed about the current crunch. The world's great shipping canals may be bottlenecks. Fortunately, however, there is not much pressure in the rest of the bottle. ■

Capital expenditure

The missing investment boom

SAN FRANCISCO

Perhaps AI is a busted flush. Perhaps the revolution will just take time

MANY ECONOMISTS believe that generative artificial intelligence (AI) is about to transform the global economy. A paper published last year by Ege Erdil and Tamay Besiroglu of Epoch, a research firm, argues that “explosive growth”, with GDP zooming upwards, is “plausible with AI capable of broadly substituting for human labour”. Erik Brynjolfsson of Stanford University has said that he expects AI “to power a productivity boom in the coming years”.

For such an economic transformation to take place, firms need to spend big on software, communications, equipment and factories, enabling AI to slot into production processes. An investment boom was required to allow previous breakthroughs, such as the tractor and the personal computer, to spread across the economy. From 1992 to 1999 American non-residential investment rose by 3% of GDP, for instance, driven in large part by spending on computer technologies. Yet so far there is little sign of an AI splurge. Across the world, capital expenditure by businesses (or “capex”) is remarkably weak.

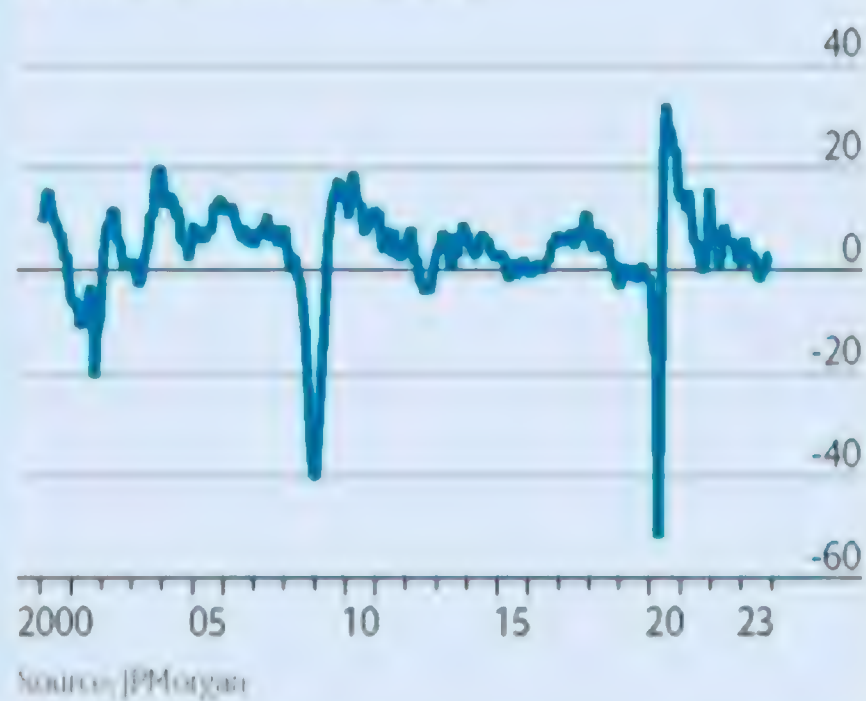
After sluggish growth in the years before the covid-19 pandemic, capex increased as lockdowns lifted (see chart). In early 2022 it was rising at an annualised rate of about 8% a year. A mood of techno-optimism had gripped some businesses, while others sought to firm up supply chains. Capex then slowed later the same year, owing to the effects of geopolitical uncertainty and higher interest rates. On the eve of the release of OpenAI’s GPT-4 in March 2023, global capex spending was growing at an annualised rate of about 3%.

Today some companies are once again ramping up capex, to seize what they see as the enormous opportunity in AI. This year forecasters reckon that Microsoft’s spending (including on research and development) will probably rise by close to 20%. Nvidia’s is set to soar by upwards of 30%. “AI will be our biggest investment area in 2024, both in engineering and compute resources,” reported Mark Zuckerberg, Meta’s boss, at the end of last year.

Elsewhere, though, plans are more modest. Exclude firms driving the AI revolution, such as Microsoft and Nvidia, and those in the S&P 500 are planning to lift capex by only around 2.5% in 2024—ie, by an amount in line with inflation. Across the economy as a whole, the situation is even bleaker. An American capex “tracker” pro-

Spend money to make money

Global capital spending, % change on previous month, annualised



duced by Goldman Sachs, a bank, offers a picture of businesses’ outlays, as well as hinting at future intentions. It is currently falling by 4% year on year.

Surely, with the AI excitement, spending on information technologies is at least soaring? Not quite. In the third quarter of 2023 American firms’ investment in “information-processing equipment and software” fell by 0.4% year on year.

Similar trends can be seen worldwide. According to national-accounts data for the OECD club of mostly rich countries, which go up to the third quarter of 2023, investment spending—including by governments—is growing more slowly than before the pandemic. A high-frequency mea-

sure of global capex from JPMorgan Chase, another bank, points to minimal growth. Weak capex helps explain why there is little sign of productivity growth, according to a real-time measure derived from surveys of purchasing managers.

An official survey in Japan does point to sharply higher capex growth, after years of sluggishness. Yet this probably reflects factors specific to that country, such as corporate-governance reforms. In most places outside America the situation is rather less encouraging. A worsening outlook for the economy in Europe makes things difficult. Investment intentions of services firms in the European Union are less than half as ambitious as they were in early 2022. British businesses plan to raise capex by a mere 3% over the next year, compared with 10% when asked in early 2022.

These trends suggest one of two things. The first is that generative AI is a busted flush. Big tech firms love the technology, but are going to struggle to find customers for the products and services that they have spent tens of billions of dollars developing. It would not be the first time in recent history that technologists have overestimated demand for new innovations. Think of the metaverse.

The second interpretation is less gloomy, and more plausible. Adoption of new general-purpose tech tends to take time. Return to the example of the personal computer. Microsoft released a groundbreaking operating system in 1995, but American firms only ramped up spending on software in the late 1990s. Although analysis by Goldman Sachs suggests that only 5% of chief executives expect AI to have a “significant impact” on their business within one to two years, 65% think it will have an impact in the next three to five. AI is still likely to change the economy, even if it will not do so immediately. ■



Free exchange | Persistent debate

Team Transitory claims victory in America's disinflation. That is a bit much



IN LATE 2021 Jerome Powell, chairman of the Federal Reserve, called for the retirement of “transitory” as a description for the inflation afflicting America. The word had become a bugbear, having been taken by many to mean that the inflation which had bubbled up early in the year would fade away as supply shortages eased. As the months went by, not only were price increases accelerating, they were broadening out—from used cars to air fares, clothing, home furnishing and more. The economists who had warned that excessive stimulus and overheating demand, rather than production snarls, would make inflation a more serious problem seemed prescient. In the shorthand of the day, it looked as if “Team Persistent” had defeated “Team Transitory”.

Fast-forward to the present, and something strange has happened. The Fed, along with most other major central banks, has acted as if Team Persistent was right. It jacked up short-term interest rates from a floor of 0% to more than 5% in the space of 14 months. Sure enough, inflation has slowed sharply. But here is the odd thing: the opposite side of the debate is now celebrating. “We in Team Transitory can rightly claim victory,” declared Joseph Stiglitz, a Nobel prizewinner, in a recent essay.

What is going on? For starters, the term “transitory” was long misunderstood. The narrowest definition, and the one that investors and politicians latched onto, was a temporal one—namely, that inflation would recede as swiftly as it had emerged. Yet another way of thinking about it was that inflation would come to heel as the post-pandemic economy got back to normal, a process that has played out over the course of years, not months.

Moving beyond semantics, the nub of the debate today is whether recent disinflation is better explained by the tightening of monetary policy or the unsnarling of supply chains. If the former, that would reflect the vigilance of Team Persistent. If the latter, that would be a credit to the judgment of Team Transitory.

There is much to be said for the supply-side narrative. The main economic model for thinking about how interest rates affect inflation is the Phillips curve, which in its simplest form shows that inflation falls as unemployment rises. In recent decades the Phillips curve has been a troubled predictive tool, as there has been little correlation between unemployment and inflation. But

given the surge in inflation after covid-19 struck, many economists once again turned to its insights. Most famously, Larry Summers, a former treasury secretary, argued in mid-2022 that unemployment might have to reach 10% in order to curb inflation. Instead, inflation has dissipated even while America’s unemployment rate has remained below 4%. No mass unemployment was needed after all—just as Team Transitory predicted.

Some have tried to rescue the Phillips curve by replacing unemployment with job vacancies. In this curve it was a fall in vacancies from record-high levels that delivered the labour-market cooling necessary for disinflation. Yet this explanation also comes up short, argues Mike Konczal of the Roosevelt Institute, a left-leaning think-tank. For inflation to have slowed as much as it has, the modified Phillips curve would have predicted an ultra-sharp fall in vacancies. And with 1.4 vacancies per unemployed worker, the American jobs market is still pretty tight. Again, this is closer to the immaculate disinflation of Team Transitory’s dreams.

Moreover, Mr Konczal points to evidence of the supply-side response that enabled this. Looking at 123 items that are part of the Fed’s preferred “core” measure of inflation, he finds that nearly three-quarters have experienced both declining prices and increasing real consumption, which suggests that the most potent factor in bringing about disinflation was a resumption of full-throttled production, not a pull-back in demand.

Nevertheless, the notion that Team Transitory was right all along leads to a perverse conclusion: that inflation would have melted away even without the Fed’s actions. This might have seemed credible if the Fed had merely fiddled with rates. It is much harder to believe that the most aggressive tightening of monetary policy in four decades was a sideshow. Many rate-sensitive sectors have been hit hard, even if American growth has been resilient. To give some examples: a decade-long upward march in new housing starts came to a sudden halt in mid-2022; car sales remain well below their pre-covid levels; fundraising by venture-capital firms slumped to a six-year low in 2023.

This leads to a counterfactual. If the Fed had not moved decisively, growth in America would have been even stronger and inflation even higher. One way to get at this is to craft a more elaborate Phillips curve, including the broader state of the economy and inflation expectations, and not just the labour market. This hardly settles the matter, since economists differ on what exactly should be included, but it does make for a more realistic model of the economy. Economists with Allianz, a German insurance giant, have done the calculations. They conclude that the Fed played a vital role. About 20% of the disinflation, in their analysis, can be chalked up to the power of monetary tightening in restraining demand. They attribute another 25% to anchored inflation expectations, or the belief that the Fed would not let inflation spiral out of control—a belief crucially reinforced by its tough tightening. The final 55%, they find, owes to the healing of supply chains.

Tallying the scores

The result is a draw between the teams when it comes to diagnosis: about half of inflation was indeed transitory. But what matters most is policy prescriptions. In the summer of 2021, believing inflation to be transitory, the Fed projected that interest rates would not need to rise until 2023, and even then to only 0.5-0.75%—a path that would have been disastrous. Boil the debate down to the question of how the Fed should have responded to the inflation outbreak, and Team Transitory lost fair and square. ■



The science of ageing

Slippers in the Oval Office

Heart attacks, strokes and mental decline—can Joe Biden and Donald Trump beat the odds?

AGE, THEY say, brings wisdom. But it also brings decrepitude. When the latter begins to outweigh the former, perhaps it is time for even the most ambitious to consider retiring into slippered ease.

If either Joe Biden or Donald Trump has contemplated such retirement, though, they have clearly rejected the idea. Instead, both are proposing themselves as candidates for second stints doing one of the most gruelling jobs on the planet. Mr Trump is now 77 and will be 78 come the general election. Mr Biden is 81, and would be 86 at the end of his term, if he won.

The most popular scientific explanation of ageing, disposable-soma theory, holds that natural selection hones youth at the expense of age, since this best serves the task of passing genes to the next generation. In both candidates' cases, that has happened. Mr Biden fathered four children and has seven grandchildren; Mr Trump fathered five, and has ten. But the evolutionary flip-side, in the view of many commentators, is becoming apparent in slips, verbal and physical, being made by both, but

especially by Mr Biden. Perhaps, some suggest, the slippers should beckon after all.

When it comes to age Mr Biden and Mr Trump are outliers compared both with other American presidents and with the present heads of government in other countries (see chart 1 on next page). When he became president in 2017 Mr Trump was the oldest person to have done so. That record was superseded in 2021 by Mr Biden.

American exceptionalism

An analysis published last year by the Pew Research Centre, an American think-tank (also on chart 1), showed that of the 187 countries for which data are available, only eight had leaders older than Mr Biden. (The

oldest is Paul Biya of Cameroon, who is 90.) Among the rich democracies of the OECD, the trend since 1950 has been for heads of government to get younger. The average age upon taking up the top job has fallen from 60.2 to 55.5 in the past half-century. How likely are Mr Biden or Mr Trump to last the course?

That is a matter with many variables. Not all of the relevant personal data are in the public domain. And the science of ageing is uncertain. Some studies, for example, suggest that running a country takes its toll. One published in 2015 by researchers at Harvard Medical School and Case Western Reserve University School of Medicine looked at elections for head of government in 17 rich countries, going back as far as 1722. It concluded that winners lived 4.4 fewer years after their last election than did runners-up who never held the top job. On the other hand, presidents top the social hierarchy. That can be lifespan-enhancing, as numerous investigations, starting with the Whitehall studies conducted between 1967 and 1988 by Michael Marmot of University College London (UCL), of British civil servants, show.

Possibly, the effects balance out. Work published in 2011 by Jay Olshansky, a gerontologist at the University of Illinois, estimated the expected mean lifespan for male contemporaries of America's presidents, based on data from the time, to be 73.3 years. The actual lifespans of those presidents who had died of natural causes aver-

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aged 73.0. This suggests either that the job takes no toll, contradicting the Harvard/Case Western Reserve study (and also other work), or that incumbents would otherwise have had more than the average number of years to live. Dr Olshansky's explanation, favouring the latter, is that presidents have tended to hail from privileged backgrounds (all but ten, he says, had been college-educated), with the health advantages that brings.

Death, however, is not the only term-shortening medical event an incumbent might suffer. A debilitating heart attack or stroke might force a resignation or require the invocation of the 25th amendment to America's constitution, which deals with presidential incapacity. Broadly speaking, the risk of stroke doubles with each passing decade. That is a worry. Then there is the question of mental wellbeing. Strokes aside, the passing years bring two threats to the brain: specific dementias such as Alzheimer's disease, and a more general slowing of the wheels—though recent research suggests the two may overlap.

Medical imaging makes it possible to examine the brains of those without symptoms of dementia for the clumps of misshapen proteins that are one of Alzheimer's characteristics. A study from 2019, by Jonathan Schott, a neurologist at UCL, and his colleagues showed that such plaques still seem to cause harm, even in those without a formal diagnosis of Alzheimer's.

Conversely, work published in 2022 by a team from Northwestern University, in Chicago, looked at neurofibrillary tangles, another Alzheimer's marker. It reported that so-called "super-agers"—those lucky enough in the disposable-soma genetic lottery to maintain healthy minds in healthy bodies long after others' decrepitude—had fewer of these tangles than did apparently disease-free non-super-agers.

Regardless of its cause, though, cognitive decline is the age-related symptom most widely discussed about the candidates, especially in the context of apparent "senior moments" displayed by both men. In 2021, for instance, Mr Biden seemed to forget the name of Lloyd Austin, his defence secretary. Mr Trump has confused Xi Jinping, the Chinese president, with Kim Jong Un, who leads North Korea.

Research suggests mental powers change with age in different ways—some declining while others improve, at least for a time. Work by Joshua Hartshorne and Laura Germine, of Harvard and the Massachusetts General Hospital respectively, supports the idea that wisdom does indeed increase with age, up to a point. Arithmetical and comprehension skills, as well as vocabulary, improve until 50, though they start to decline thereafter (see chart 2).

However, for tasks involving short-term memory (remembering things imme-

Keep on truckin'

Country leaders, by age

US presidents at first inauguration 1789-2021

UN members* 2023

OECD countries 2023

Sources: Pew Research Centre; The Economist

Age

*With available data

diately after presentation) and working memory (remembering them half an hour later), it is downhill from the age of 20 or so. Some scores fall by as much as half a standard deviation below the population mean by the time someone is 85.

Not all men are created equal

All this might be grounds for caution when faced with elderly candidates. But Dr Olshansky, at the University of Illinois, is having none of it, for two reasons. One is the general point he makes about most candidates' privileged backgrounds granting them a health-promoting environment in which to grow up. The other, specific to Mr Biden and Mr Trump, is that he thinks they may be made from sterner genetic stuff than most of their fellow beings—in other words, that they are super-agers.

Mr Trump is unquestionably a child of privilege. His father was a multimillionaire businessman. Mr Biden's family fortunes were more mixed. But he still had the leg-up of being sent to a private school as a teenager. So far, so typical. The super-ager argument is more intriguing. Four years ago, during the previous Biden-Trump contest, Dr Olshansky and five colleagues

analysed what relevant data they could collect pertaining to the two men.

Both come from long-lived families, with an octogenarian and a nonagenarian parent each. That is a good predictor of longevity. But Mr Trump's brothers died at the ages of 42 and 71 and his father developed Alzheimer's. Both count against him in the calculation—as do his weight and lack of exercise compared with Mr Biden.

Nevertheless, Dr Olshansky concluded from these sorts of data, combined with what is publicly available about the men's medical records, that both had a higher than average probability of surviving the following four years. Mr Biden, they reckoned, had a 95% chance compared with 82% for a typical man of his age; for Mr Trump the figures were 90% compared with 86% for his contemporaries. Notably, then, their calculations gave Mr Trump, the younger man, a worse prognosis.

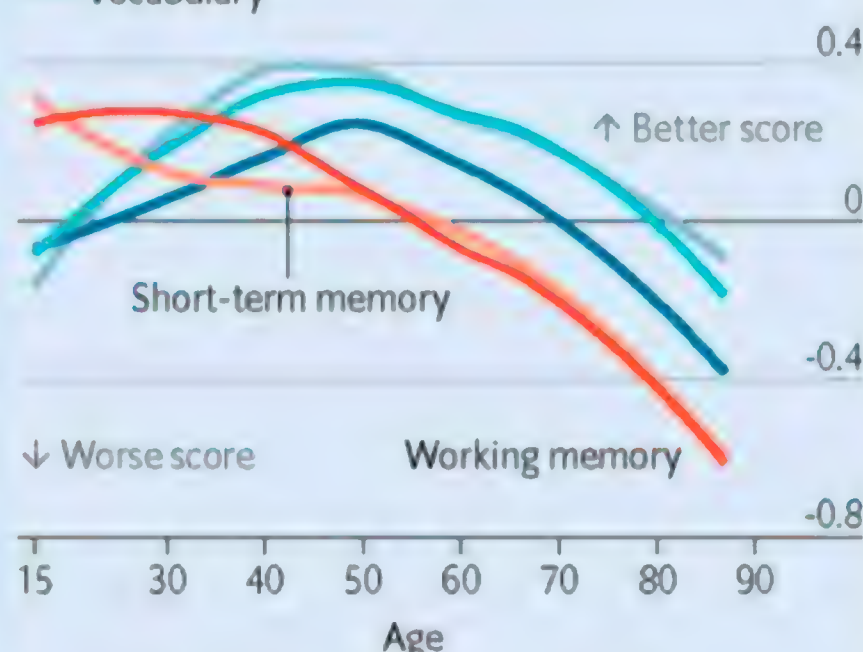
They have not yet fully pronounced on the matter this time around. But Dr Olshansky stated on January 7th, in an article in the *Hill*, a Washington-based newspaper, that, "Today his [Mr Biden's] chances of surviving through a second term in office are close to 75% (about 10% better survival than for an average man his age). Similar, although slightly less favourable survival prospects are present for Trump."

As to senior moments, Dr Olshansky is inclined to write at least some of them off as sampling errors resulting from relentless scrutiny. Of an incident in June 2022 in which Mr Biden fell off his bicycle, for example, he observes that the president had caught his foot in a pedal strap, rather than losing his balance, an accident that might happen to anyone. More pertinent, he says, is the fact that a 79-year-old (as Mr Biden then was) was cycling in the first place. ■

The gifts reserved for age

US, cognitive test scores, standard deviations from the mean across lifespan

Arithmetic Comprehension Vocabulary



Source: "When does cognitive functioning peak?", by Joshua Hartshorne and Laura Germine, 2015

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Fixing psychology

Power prose

A new journal editor takes aim at psychology's replication crisis

IT IS EASY to be sceptical about the state of behavioural science. The biggest story in the field in 2023 involved two frequent collaborators, Dan Ariely of the Duke Fuqua School of Business and Francesca Gino at Harvard Business School, who both face charges of research misconduct.

Both have studied how to fight dishonesty. Ironically, they have been accused of fiddling their data. Harvard has put Dr Gino on leave and is trying to revoke her academic tenure. She has filed a lawsuit against her accusers and the university. Both scientists deny the allegations. (Neither responded to requests for comment.)

It was another embarrassment for a field that has been mired for years in a "replication crisis", in which researchers have proved unable to recreate a string of supposedly robust, headline-grabbing findings, such as power-posing (the idea that assertive poses can improve performance in negotiation or public speaking) and social priming (which holds that exposure to tiny stimuli can significantly change people's later behaviour).

A movement to try to fix things began more than a decade ago. Now, one of its leading lights has ascended to one of the most powerful positions in the field. On January 1st Simine Vazire took over as editor-in-chief of *Psychological Science*, the discipline's most prestigious journal.

Dr Vazire is a psychologist at the University of Melbourne who helps run a research group focused on metascience, or the study of science's processes. She has been a mainstay of the movement to fix psychological science for years. "Appointing her as EIC is putting someone who's at the forefront of methods reform in charge of one of our most important institutions," says Yoel Inbar, a psychologist at the University of Toronto, and an associate editor at the journal who has done a good deal of work on methodological wobbliness.

Worries about fraud make the biggest headlines. But it probably accounts for a small fraction of the problem. "The bigger issue in my opinion is all the spin, including statistical practices...that bias results in favour of researchers' beliefs," says Uli Schimmack of the University of Toronto-Mississauga, whose website, Replicability-Index, helped force psychology to take its methods problems seriously.

Dr Vazire's new perch makes her well-placed to crack down on such "question-

able research practices" (QRPs). Although the details are complicated, the basic ideas are simple. QRPs are often about cherry-picking: re-running statistical tests until chance throws up something strong enough to publish; quietly binning results that contradict pet hypotheses while publishing those that support them, and so on.

Psychologists started taking QRPs more seriously around 2011. A now notorious paper published that year appeared to present evidence for extrasensory perception. Today, the paper is viewed as a case study in how QRPs can allow researchers to "prove" just about anything. Another paper, published around the same time and this time deliberately impish, used widely accepted practices in experimental psychology to "prove" the obviously impossible result that the Beatles' song "When I'm Sixty-Four" made listeners younger. The researchers behind the second paper would later establish Data Colada, a website that has made a name for itself questioning research, including papers by Dr Ariely and Dr Gino.

Reformers argue for several countermeasures. Having scientists register their research plans in advance, including

which variables they think will move in which directions, leaves less room for cherry-picking. "Registered Reports" are a more radical idea, in which journals accept articles before their findings are known. That puts more emphasis on strong methodology, and helps ensure negative results are published alongside positive ones.

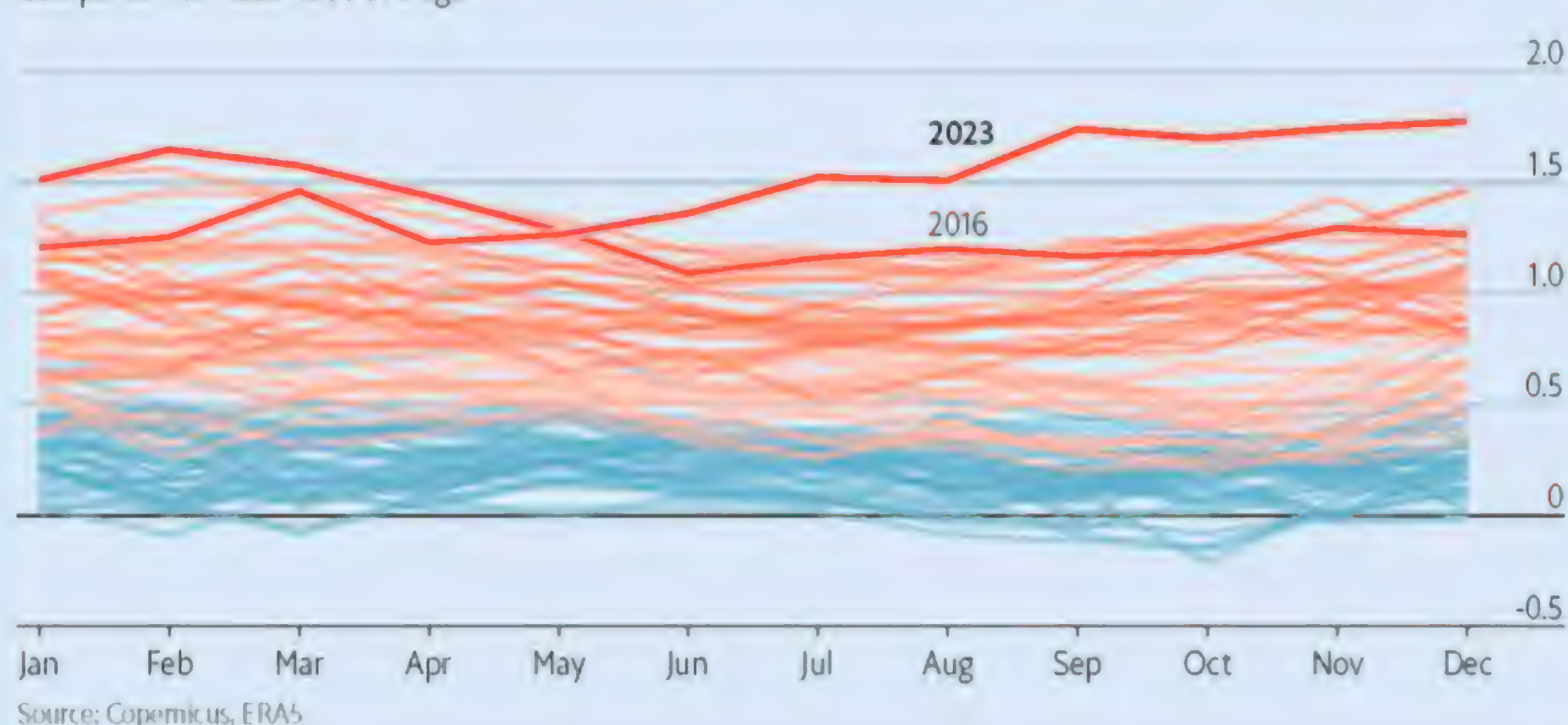
Dr Vazire's debut editorial promised changes along those lines at *Psychological Science*. "By default, we now expect all primary data, original research materials, and analysis scripts to be made publicly available in a trusted third-party repository," she wrote. Pre-registration will not be required, but it will improve the chances of a paper being accepted. Authors who deviate from their stated plans will need to explain why. (Dr Vazire did not respond to requests for an interview.)

She may be pushing at an open door. At first there was resistance to the idea that there was a problem, says Dr Inbar. "I think part of it was a sense that when you criticise published research or you replicate studies, that you're picking on the people who published those papers." Much of the agitation for reform happened on blogs and social media, which made it easier for the old guard to dismiss.

But attitudes have been changing. "Ten years ago, Simine was perceived as a radical in her advocacy for reforms to increase transparency and [the] credibility of research," says Brian Nosek of the University of Virginia, who co-founded the Society for the Improvement of Psychological Science with her in 2016. "She is no longer seen as a radical. But she hasn't changed a bit." ■

Torrid

Global monthly surface temperature anomalies, °C
Compared with 1850-1900 average



The hottest year ever

Last year was the hottest ever recorded. Data from Copernicus, an EU climate-monitoring service, put the average global temperature for 2023 at 1.48°C above the pre-industrial average. Much of the heat came in a run of six record-breaking months. More data from American and British agencies is due on January 12th, which will cover online. Human greenhouse-gas emissions are the main reason for the warming. But they have been amplified by El Niño, a natural climate cycle, which could make 2024 hotter still.

Wind turbines and wildlife

Sharing the skies

Wind turbines are much friendlier to birds than oil-and-gas drilling

BIRDERS GET nervous when they see landscapes covered in wind turbines. When the wind gets going, their blades can spin at well over 200km per hour. It is easy to imagine careless birds getting chopped to bits. Campaigners often point to the possibility when opposing the building of new wind farms.

No one doubts that wind turbines do indeed kill at least some birds. But a new analysis of American data, published in *Environmental Science & Technology*, suggests the numbers are negligible, and have little impact on bird populations.

Wind power has expanded dramatically in America over the past 20 years, from 2.6 gigawatts of installed capacity on land in 2000 to 122 gigawatts in 2020. Many studies have analysed the effects in specific locations or on specific bird species. But few have looked at the effects on wildlife at the population level. Enter Erik Katovich, an economist at the University of Geneva. Dr Katovich made use of the Christmas Bird Count, a citizen-science project run by the National Audubon Society, an American non-profit outfit. Volunteers count birds they spot over Christmas, and the society compiles the numbers. Its records stretch back over a century.

Dr Katovich assumed, reasonably, that if wind turbines harmed bird populations, then the numbers seen in the Christmas Bird Count would drop in places where new turbines had been built. He combined bird population and species maps with the locations and construction dates of all wind turbines in the United States, with the exceptions of Alaska and Hawaii, between 2000 and 2020. He found that building turbines had no discernible effect on bird populations. That reassuring finding held even when he looked specifically at large birds like hawks, vultures and eagles that many people believe are particularly vulnerable to being struck.

But Dr Katovich did not confine his analysis to wind power alone. He also examined oil-and-gas extraction. Like wind power, this has boomed in America over the past couple of decades, with the rise of shale gas produced by hydraulic fracturing, or fracking, of rocks. Production rose from 37m cubic metres in 2007 to 740m cubic metres in 2020.

Comparing bird populations to the locations of new gas wells revealed an average 15% drop in bird numbers when new

ON THE MORNING of January 8th America tried for the first time in more than 50 years to launch a spacecraft designed to touch down gently on the Moon. Compared with the glories of the Apollo programme in the 1960s and 1970s, Monday's launch of a brand-new Vulcan Centaur rocket, carrying *Peregrine One*, a robot lunar lander, was a distinctly modest affair. In the event, it was a partial failure, too. The rocket itself performed flawlessly. But a propellant problem left *Peregrine One* stranded and unable to reach the Moon.

That the rocket proper did its job will be a relief to United Launch Alliance (ULA), a joint venture established in 2006 between Lockheed Martin and Boeing, two American aerospace firms. ULA's previous launches have all been done on rockets inherited from its corporate parents. Vulcan Centaur is the first one it has developed in-house. Boeing and Lockheed are looking to sell ULA, and a failure would have dented those plans.

The joint venture's customers will be relieved, too, especially America's government. The only other American firm that can launch big satellites is SpaceX, led by Elon Musk. Having alternatives is always wise; when the incumbent is the mercurial Mr Musk, doubly so.

If Vulcan Centaur behaved impeccably, though, *Peregrine One* was soon in trouble. The lander is the first spacecraft built by Astrobotic, a company based in Pittsburgh. Its flight was the opening mission of the Commercial Lunar Payload Services (CLPS) initiative, through which NASA hopes to make lunar science cheaper. The idea is to pay firms to deliver scientific payloads to the Moon, just as they deliver supplies and crew to the International Space Station. There were five such NASA payloads on *Peregrine*.

Shortly after the rocket put *Peregrine One* on its moonwards trajectory the lander's solar panels stopped facing the

wells were drilled, probably due to a combination of noise, air pollution and the disturbance of rivers and ponds that many birds rely upon. When drilling happened in places designated by the National Audubon Society as "important bird areas", bird numbers instead dropped by 25%. Such places are typically migration hubs, feeding grounds or breeding locations.

Wind power, in other words, not only produces far less planet-heating carbon di-

Lunar exploration

You win some, you lose some

A new rocket has a fine debut; not so the Moon lander on board



It started so well...

oxide and methane than do fossil fuels. It appears to be significantly less damaging to wildlife, too. Yet that is not the impression you would get from reading the news. Dr Katovich found 173 stories in major American news outlets reporting the supposed negative effects that wind turbines had on birds in 2020, compared with only 46 stories discussing the effects of oil-and-gas wells. Wind turbines might look dramatic. But their effect on birds is not. ■

Sun, forcing it to rely on battery power. Engineers found a way to fix the problem, but in doing so also diagnosed its underlying cause as a loss of propellant. A day after the launch it was clear that, although the craft might get close to the Moon, a landing was out of the question. Three other CLPS missions are due this year. With so many attempts in the pipeline, it is surely only a matter of time until a private company sticks a lunar landing. Eventually private firms will deliver people to the Moon, too. This week NASA confirmed that its target date for returning humans to the lunar surface had slipped to 2026; it may well slip again. But whenever the astronauts do return, they will do so in a new spacecraft that one of the private space companies provides. SpaceX has the contract to provide the first such landing craft, a derivative of its giant Starship rocket. An alternative lander is being built by Blue Origin, a rocketry firm founded by Jeff Bezos, the boss of Amazon (and thought to be a potential bidder for ULA). The Moon is going corporate.

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Ukraine's stolen art

Treasure quest

KHERSON AND KYIV

Russia has looted hundreds of thousands of artworks, Ukraine says. Recovering them will not be easy

ON AN UNSEASONABLY warm day in October, the silence outside broken by birdsong and artillery fire, Olga Goncharova sat in her office on the ground floor of the Kherson Regional Museum, a bullet-proof vest wrapped around the back of her chair, the windows covered with plywood, and cursed the Russians. "They're vandals, the people who did this," she said.

Ms Goncharova escaped from Kherson, in southern Ukraine, in the spring of 2022, shortly after Russian troops poured into the city. By the time she returned, in November that year, Kherson had been liberated. The Russians had evacuated to the other bank of the Dnieper river, from which they have been bombing the city ever since. Ms Goncharova wept when she entered the museum where she had worked for over two decades. "There was broken glass everywhere," she says. "They had torn some of the exhibits out."

In fact Russian officials, assisted by local collaborators and the museum's then-

director, had removed more than 28,000 artefacts, loaded them onto lorries and shipped them to Crimea, illegally annexed by Russia in 2014. Gone were the ancient coins, the Greek sculptures, the Scythian jewellery, a precious Bukhara sabre—and even the hard drives containing the museum's catalogue. Three decades ago, Ms Goncharova says, the museum recovered a collection of Gothic bronzes looted by German occupiers during the second world war. Now the Russians have stolen them.

Since Russia's full-scale invasion began in February 2022, the loss of life and suffering in Ukraine has been great. Many of its

museums have been plundered, too. The country's ministry of culture estimates that over 480,000 artworks have fallen into Russian hands. At least 38 museums, home to nearly 1.5m works, have been damaged or destroyed.

Ukrainian officials have also sent a number of collections to other parts of Europe to protect them from Russian bombs. These include dozens of Ukrainian paintings from the early 20th century, on display at the Royal Museums of Fine Arts in Brussels before travelling to Vienna and London. When the evacuated treasures will return to Ukraine is unclear.

Artists have not been spared either. Ms Goncharova points to a painting of dried flowers and pottery that hangs opposite her desk. The artist, Vyacheslav Mashnytskyi, from Kherson, went missing after Russian troops turned up at his riverside dacha and requisitioned his boat. Friends who stopped by the house days later found traces of blood. Mr Mashnytskyi has not been heard from since.

Putting a price on the stolen works is nearly impossible, since only a fraction had been appraised for insurance purposes. Last April the UN estimated that the war had caused \$2.6bn-worth of damage to Ukraine's cultural heritage. That now seems to be a conservative figure. Tracking what the Russians have looted is also a headache. Many Ukrainian museums, ►►

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especially smaller regional ones, had relied on paper catalogues, often outdated or incomplete, says Mariana Tomy, an official at the culture ministry. Some of those catalogues have now gone. Efforts to digitise inventories, which began only three years ago, have taken on a new urgency.

Ukraine will seek redress. Prosecutors in Kyiv are investigating Russian officials and Ukrainians involved in the plunder. Mrs Tomy is working on a new restitution law and the overhaul of an outdated one on the protection of cultural heritage. And since late October a special army unit has begun to monitor damage to cultural sites. But there is little hope of recovering what the occupiers have stolen. Russian officials will ship Ukrainian collections stored in Crimea to Russia if Ukraine retakes the peninsula, says Vyacheslav Baranov, an archaeologist at Ukraine's National Academy of Sciences.

There have been some breakthroughs. On November 26th, after a long court battle, hundreds of historical treasures from Crimea were returned to Ukraine from the Netherlands. The collection, which includes Scythian gold carvings from the fourth century BC, had been on display at the Allard Pierson Museum in Amsterdam in 2014. Russia demanded the return of the objects to the Crimean museums which had loaned them. The Dutch supreme court ruled in 2021 that they belonged in Ukraine.

They are not the only ones to make their way back. At the Lavra museum complex in Kyiv, Maksym Ostapenko slowly unwraps a bundle of white packing paper. Out of it emerges a Bronze Age battle-axe. Another bundle yields a sixth-century Khazar sword. In the summer of 2022 the weapons, plus a few other objects probably destined for America's antiquities market, surfaced at John F. Kennedy airport. The American authorities sent them back to Ukraine a year later. Most were probably excavated illegally in southern Ukraine, near Crimea, says Mr Ostapenko, the museum's director, or discovered by Russian troops digging trenches. Such archaeological looting has thrived in the occupied territories, he adds. "The damage done to cultural heritage is immeasurable."

Across the street from Kherson's regional museum sits the city's art museum. It was under renovation when Russia invaded; some of the staff told the new authorities that its collection had been transported north. It was actually being stored in the basement and eventually the Russians found out, thanks to local informers, including the ex-director of the regional museum. By the time the Ukrainians recaptured the city, the Russians had made off with about 10,000 of the museum's 14,000 works, including paintings by Ilya Repin and Oleksii Shovkunenko, the artist

after whom the museum is named, and religious icons. They left behind some sculptures which were too heavy to move (see picture on previous page), says Ihor Rusol, an employee, plus a few portraits of Lenin.

Last summer museum officials concluded, from photos and videos online, that some of the stolen art was being stored at the Tavrida museum in Simferopol, in occupied Crimea. Reached by telephone, the Tavrida's director, Andrei Malgin, acknowledges that the Kherson collection is held in his museum. Mr Malgin, who was placed under sanctions by the EU in June for his role in the plunder, says the works were moved "for safekeeping".

Inside the empty basement of Kherson's art museum, Mr Rusol says he expects no gestures of goodwill from the Russians. "There is only one thing," he says, Ukraine can do to ensure that the city's stolen art returns home: "Win the war." ■

Classical music and conflict

In counterpoint

Two Arab-Israeli musical initiatives reckon with the war in Gaza

THESE DAYS it is relatively rare to see Daniel Barenboim perform. The Israeli-Argentine conductor and pianist, now 81 years old, has reduced his public commitments because of a neurological condition. Yet some events demand an appearance. On January 19th he is scheduled to conduct a concert by the students of the Barenboim-Said Academy, a conservatoire he opened in Berlin in 2016.

Such occasions are not only meaningful because of Mr Barenboim's health. They have taken on political poignancy, too. The academy's students largely come from the Middle East, and include both Israelis and Palestinians. The institution aims to foster understanding and intellectual curiosity alongside musical ability: as well as learning to master their instruments, students take lessons in history, literature and philosophy. The academy's faculty includes not only renowned musicians, but also experts on constitutional theory, Holocaust memory and post-colonial literature.

The idea for the academy grew out of the West-Eastern Divan Orchestra, an ensemble that Mr Barenboim founded in 1999 with Edward Said, an American-Palestinian academic. The orchestra similarly brings together Arab and Israeli musicians in the hope that playing together can encourage dialogue across the region's cultural and political divisions. In the nearly 25 years since it was established, the orchestra has won global acclaim and regularly tours internationally.

Mr Barenboim has long had a knack for the symbolic. In 2001 he conducted extracts from "Tristan and Isolde", an opera by Richard Wagner, during a concert with the Berlin Staatskapelle in Jerusalem. That defied an informal Israeli ban on performances of the antisemitic German composer's music, famously loved by Adolf Hitler, and sparked furious debate about free expression and Israel's modern identity. In 2005 Mr Barenboim led a concert with the West-Eastern Divan Orchestra in Ramallah, a city in the West Bank. He was later granted a Palestinian passport in recognition of his work fostering cultural ties between Israel and its Arab neighbours.

The Israel-Hamas war has sharpened the focus of the Barenboim-Said Academy ►►



Playing with heart

▶ and West-Eastern Divan Orchestra. In an essay published after Hamas's attack on October 7th, in which 1,200 people, most of them Israeli civilians, were killed, Mr Barenboim wrote of the need to offer alternative perspectives to those who are "attracted to extremism". Music-making could play only a small role in reconciliation, but it still had "immense value" in helping people see the humanity of their enemies.

The conductor has acknowledged that some consider his perspective, and his work, naive. For many, music dwindles into insignificance amid so much suffering. (The total death toll in Gaza exceeds 23,000, according to the Hamas-run health ministry; women and children make up a large proportion.) The war, detractors argue, is evidence of the failure of these kinds of projects. When hatred leads to bloodshed, the argument goes, what good is a disciplined string section?

Both the academy and the orchestra are deeply affected by the conflict. Yet its consequences are especially obvious at the academy, says its dean, Michael Barenboim, who is also concertmaster of the West-Eastern Divan Orchestra (and its co-founder's son). Members of the professional orchestra meet intermittently for performances, but the conservatoire's students work together every day.

Rather than withdraw into an echo chamber with like-minded individuals, students are forced to interact with peers who may have a very different perspective on the region's politics. The younger Mr Barenboim says that some students prefer to reflect on those differences alone, while others want to engage in discussion. Overall, though, he is struck by their continued commitment to the project's values of co-operation and dialogue.

The orchestra's professional players have also continued to perform together since war broke out. In November some gave chamber concerts in Britain, Germany and Hong Kong under the banner of the West-Eastern Divan Ensemble, an offshoot of the main group (pictured on the previous page). Such occasions remain principally about the music: in London the ensemble played works by Beethoven, Mendelssohn and Elliott Carter, an American avant-garde composer. Yet the decision to play in public is still a telling gesture.

Those involved do not pretend that performing quartets or symphonies can play a meaningful role in diplomacy. Mr Barenboim has said that music can only "change things on a small scale. On a large scale, it is up to politics." The logic of the initiatives lies in their ability to act as alternative models of engagement. The younger Mr Barenboim likens them to a controlled scientific experiment: they show that if you change how people meet, they may treat each other differently. ■

Statecraft

Mighty minnows

How adroit small countries can survive and thrive in a messy world

The Small States Club. By Armen Sarkissian. Hurst; 272 pages; \$34.95 and £25

IT WAS A perilous moment. At a reception during a visit to Britain by Mikhail Gorbachev in the 1980s, a young Soviet researcher from Cambridge University faced an astute question from Margaret Thatcher. "Young man," the prime minister asked, "do you feel Armenian or do you feel 'Soviet'?" How to respond without either betraying his treasured ethnic roots or appearing publicly disloyal to the Soviet state, within earshot of the spies in Gorbachev's entourage? "I am of course Armenian," Armen Sarkissian replied, adding that he was a grateful Soviet citizen who had received an excellent education back home.

That is the sort of agile diplomacy that Mr Sarkissian admires in small states. Born into a giant country, the Soviet Union, Mr Sarkissian went on to be prime minister and more recently president of a small one, Armenia. Having achieved remarkable success against the odds, he is intrigued by small states that have done so too, and the lessons they may hold for the rest of the world. His portraits of several of these countries, peppered with personal anecdotes, are compelling case studies.

They are a varied bunch. From inauspicious beginnings Singapore became one of the world's most successful city-states,

thanks to the far-sighted leadership of Lee Kuan Yew. Botswana is "a diamond in the rough", as Mr Sarkissian puts it, "a model of economic prudence and efficient governance in Africa". A trio of European countries make it into his collection: Switzerland, which has made a virtue out of neutrality; Ireland, formidably well-connected as well as "compassionate, open and global"; and impressively pragmatic Estonia, which has changed beyond recognition since its Soviet days to become a pioneer of simplified taxation and e-government.

The Middle East has the most intriguing cluster of small-state stars. Qatar has made the most of its gas and of the security that comes from hosting a big American air base, while hedging its bets in foreign policy (it recently played a role in hostage and prisoner swaps between Israel and Hamas, for example). The United Arab Emirates (pictured) punches above its weight as a logistics hub with the help of streamlined decision-making and clever investments. Mr Sarkissian is impressed by the skilled lobbying and economic ingenuity of Israel, the "startup nation"—though now engulfed in a horrendous war—which, like Armenia, has a traumatic history and a global diaspora.

Yet Armenia itself has not managed to match Israel's economic prowess, as Mr Sarkissian shows. It has failed to make the most of its diaspora. Internal arguments ▶▶



The sky's the limit in Dubai

▶ and short-termism mean that it has ended up with a “no-model model”. Merely being a small state is no guarantee of success.

So what are the lessons from the adept ones? Their paramount preoccupation is survival. They recognise their vulnerabilities and invest in the future. Mr Sarkissian suggests that the essential ingredients include a strong sense of identity, a national mission, strategic purpose and effective leadership. With these, he argues, small states “can navigate the complex challenges of the 21st century in smarter ways than the traditional great powers”.

Maybe so, but can “a club” of such states really help spread ideas and promote partnerships and peace, let alone save the world, as Mr Sarkissian grandly claims? It is perhaps not surprising that his efforts to promote the idea have encountered resistance—and not just because of the entrenched interests of larger states and established groupings. With its diverse members, such a club risks being contentious: the “symphony of elements” that characterises the dynamic minnows could easily become cacophonous. Besides, a club suggests an aspiration to bigness. Yet as Mr Sarkissian persuasively describes, the beauty is being small. ■

America's evangelicals

Earthly powers

The Kingdom, the Power and the Glory. By Tim Alberta.
Harper; 496 pages; \$35

ON JULY 4TH 1976, more than 25,000 people gathered in a field in Lynchburg, Virginia, to mark, if not exactly celebrate, the bicentenary of the Declaration of Independence. The stage was decorated with jolly red, white and blue bunting and a full-scale replica of the Liberty Bell, but the message coming from the podium was grim. Jerry Falwell—a popular television preacher and founder of the nearby Liberty University—had organised the event, and he spelled out where America had gone wrong. “The nation was intended to be a Christian nation by our Founding Fathers,” he proclaimed. “This idea of ‘religion and politics don’t mix’ was invented by the devil to keep Christians from running their own country.”

This was an odd, and oddly ahistorical, message to deliver on the 200th anniversary of a nation founded in large part on the notion of religious liberty. Rather than embrace a pluralist vision of a prosperous de-



Giving him thanks and praise

mocracy in which people of all faiths (and no faith at all) would be left to their own beliefs, Falwell urged his audience to rescue America from the liberal, secular elites that were dragging it into the pit. Falwell would soon rebrand his followers as the Moral Majority, a block of voters that could be marshalled to support conservative causes and elect Republican candidates.

For Tim Alberta, a journalist at the *Atlantic*, the Lynchburg bicentennial was a pivotal moment, as it forged an unholy alliance between evangelical believers and right-wing nationalists. Falwell, he argues, was “one of the most consequential figures of the late 20th century”, as his noxious blend of “Christianity and conservatism would roil America’s political landscape and radicalise its Protestant subculture”.

And roiled it still is. As Mr Alberta powerfully chronicles in the pages of “The Kingdom, the Power and the Glory”, Falwell and his allies have poisoned not only politics, but the very faith its self-appointed champions claim to be defending.

Mr Alberta, the son of an evangelical minister, describes himself as a believer. He exposes the rot at the heart of the modern evangelical movement not as a secular critic, but as an insider. This gives him access, but, more important, it gives him a sympathetic ear, allowing him to hear the anxieties driving people whose tactics he deplores but whose spiritual, if not political, vision he often shares.

Travelling the nation, attending sermons at megachurches and at tiny roadside chapels, Mr Alberta describes a world divided against itself. Much of the book offers a rogue’s gallery of power-hungry operators, religious fanatics and old-fashioned snake-oil salesmen.

He speaks to well-known figures such as Ralph Reed, a lobbyist and the founder

of the Faith and Freedom Coalition, who has made it his life’s work to fuse Christianity with Republican politics. Mr Alberta also includes the perspectives of lesser-known characters such as Greg Locke, a pastor at the Global Vision Bible Church in Tennessee, who once called President Biden a “sex-trafficking, demon-possessed mongrel”. Along the way, Mr Alberta also encounters plenty of men and women trying to live by traditional Christian values.

Donald Trump casts a shadow over much of the book. (In 2020 85% of white evangelicals who regularly went to religious services voted for him.) Mr Alberta is no fan of the former president, whom he calls a “lecherous, impenitent scoundrel”. Though politicians on the right have long exploited the evangelical movement for their own gain, the author is appalled by the role evangelicals played in Mr Trump’s political rise.

For Mr Alberta, the source of the problem is simple: too many have perverted the meaning of the Gospels and sold their souls for power and influence. It is hard to square Christ’s dictum, “My kingdom is not of this world”, with the right-wing Christian nationalism spouted by Falwell and his successors.

Mr Alberta is aware of the dangers to American democracy posed by the confounding of religion and politics, but he is even more concerned about its impact on the church itself. Evangelicals, according to a recent poll by the Pew Research Centre, are now among the least popular groups in America, with many former adherents identifying as “ex-vangelical”. Still, Mr Alberta isn’t without hope, since the Bible says that faith thrives in adversity. After attending one particularly uplifting sermon, he finds himself on his knees in prayer, “overcome with a sense of assurance”. ■

Marvel

Losing its powers?

The world's mightiest movie franchise looks increasingly fragile

IN "THE AVENGERS" (2012) Nick Fury (Samuel L. Jackson), a spy, described heroes as "an old-fashioned notion". Certainly the film's characters, including Captain America and Iron Man, were not novel, first appearing in comic books published in the mid-20th century. But if the idea was old, the excitement around superheroes had been renewed. "The Avengers" became the first Marvel movie to make more than \$1bn at the global box office.

When Fury's words were used in the trailer for "The Marvels" (2023, pictured), however, they took on a different tone. Heroes may seem antiquated, he argued, but "the world can still use them". If it was an attempt to convince the viewer, it did not work. Released in November, "The Marvels", the 33rd instalment in the Marvel Cinematic Universe (MCU), made around \$200m at the box office. It became the poorest-performing MCU film to date, and will probably lose money.

Nor was "The Marvels" a one-off disappointment. "Ant-Man and the Wasp: Quantumania" also underperformed. According to CinemaScore, an audience-rating benchmark, of the past eight MCU films, five have scored B+ or worse (see chart). Fans complain of dull characters, sloppy writing and amateurish special effects.

Marvel productions on the small screen have not fared much better. Recent MCU television series on Disney+, including "Secret Invasion", about Fury's character, have been poorly reviewed and, estimates suggest, little watched. It does not bode well for the shows due to be released in the coming months.

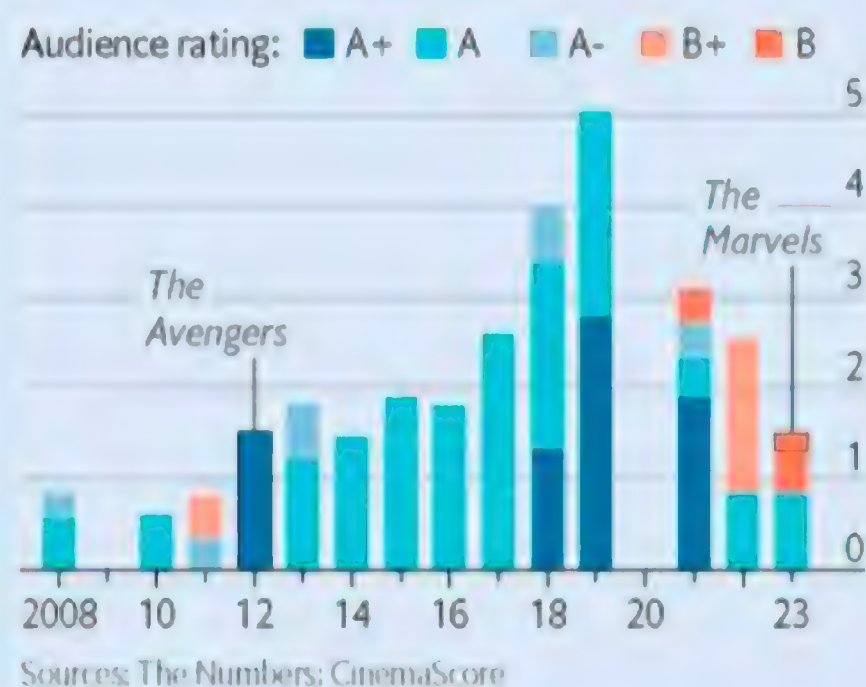
The decline is surprising: for a long time, the Marvel brand seemed invincible. Disney bought the comic-book company in 2009 and it became a prized asset. The 23 movies released between 2008 and 2019 grossed almost \$23bn in total, making Marvel the largest film franchise in history.

Marvel kept standards high even as it increased production. The company released 2.75 films, on average, in 2016-19, up from 1.2 in 2008-13. Of those 23 movies, only one ranked lower than A- on CinemaScore. Three films received an A+, awarded to fewer than 100 of over 4,000 films measured since 1979. "Black Panther" (2018) even became the first comic-book adaptation to be nominated for Best Picture at the Oscars.

Marvel pioneered an innovative "cine-

Endgame?

Marvel Cinematic Universe films
Worldwide box-office revenue, \$bn



matic universe" model, in which plotlines and characters were shared across films. As Marvel's universe grew, its competitors tried, and failed, to emulate its success. DC Comics—which owns Batman, Superman and Wonder Woman—set up, and recently scrapped, its "Extended Universe". Warner Bros has turned the Harry Potter franchise into a "Wizarding World". Universal twice tried to launch a "Dark Universe" of monsters such as Dracula and the Mummy, but both attempts failed after a single release. Efforts to build out Robin Hood and his merry men (Lionsgate), Power Rangers (also Lionsgate) and King Arthur and his round table (Warner Bros) all faltered.



Captain Marvel, flying into difficulties

By the early 2020s the MCU seemed set for further dominance. In 2019 Disney acquired 20th Century Fox, which held the rights to characters including the X-Men and the Fantastic Four. The launch of Disney+ that year made it easier for fans to keep up with the ever-expanding MCU and enabled the franchise to tell new stories in a serialised format. But instead of developing its position in pop culture, Marvel has struggled creatively and financially.

Disney insiders suggest several causes for the slump. One is to do with personnel. Several trusted writers and directors have moved on. Many of the actors playing the most popular superheroes left the MCU after "Avengers: Endgame" in 2019, and Chadwick Boseman, the star of "Black Panther", died in 2020. Last month Disney fired Jonathan Majors after he was found guilty of assaulting and harassing his then-girlfriend. The actor played the villain at the heart of the "Multiverse Saga", the story which would connect the films released between 2021 and 2027.

Another reason is to do with geopolitics. The first 23 films were all released in China, the world's largest theatrical market, but between 2020 and 2022, none was. (China did not give a clear reason why, but it was probably building up its domestic film industry.) Though this de facto ban is now over, cinematic universes are hard to understand when audiences have missed several entries. Making matters worse, Disney+ is not available in China, so fans cannot watch the TV entries.

Yet part of the problem is of Marvel's own making. Since 2021 the MCU has released an average of 3.3 films and 3.7 television series every year—a rate that seems to strain audiences, internal creative teams and special-effects departments. For prospective viewers hoping to watch a new title, 33 films and 11 seasons of television is simply too much homework. The focus on the "multiverse", which draws on films predating the existing cinematic universe, aggravates this issue.

Audiences may yet tire of superheroes much as they tired of Westerns in the late 1960s. But for now, the genre goes on. The third "Guardians of the Galaxy" film grossed \$846m, making it the fourth-highest-grossing film of 2023, and received an A rating on CinemaScore. "Spider-Man: Across the Spideverse", an animated film by Sony, was also among the most popular films last year.

Bob Iger, Disney's CEO, who initiated Marvel's expansion, has said the franchise can return to its former glory by slowing the pace of production. "I've always felt that quantity can be actually a negative when it comes to quality. And I think that's exactly what happened. We lost some focus." He, and Marvel's many fans, will be holding out for the heroes. ■

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Economic data

	Gross domestic product				Consumer prices			Unemployment rate		Current-account balance		Budget balance		Interest rates		Currency units	
	% change on year ago			latest	% change on year ago		latest	%	% of GDP, 2023†	% of GDP, 2023†	10-yr gov't bonds latest,%	change on year ago, bp	per \$		% change on year ago		
	latest	quarter*	2023†		latest	2023†							Jan 10th				
United States	2.9	4.9	2.4	3.1	4.1	3.7	-2.8	-6.3	4.0	43.0	-						
China	4.9	5.3	5.5	-0.5	0.7	5.0	2.1	-3.8	2.4	33	-30.0	7.17	-5.4				
Japan	1.5	-2.9	1.8	2.9	3.3	2.5	3.1	-5.1	0.6	11.0	146	-9.2	-9.2				
Britain	0.3	-0.5	0.2	3.9	6.8	4.3	-2.9	-3.9	3.9	27.0	0.79	3.8	3.8				
Canada	0.5	-1.1	1.0	3.1	3.8	5.8	-0.6	-1.5	3.3	16.0	1.34	nil	nil				
Euro area	nil	-0.5	0.6	2.9	5.5	6.4	2.3	-3.3	2.2	-5.0	0.91	2.2	2.2				
Austria	-1.8	-2.1*	-0.7	5.7	7.7	4.9	1.6	-2.2	2.8	-11.0	0.91	2.2	2.2				
Belgium	1.4	1.5	1.3	0.5	2.6	5.6	-1.3	-4.6	2.8	-14.0	0.91	2.2	2.2				
France	0.6	-0.5	0.9	4.1	5.7	7.3	-1.0	-5.0	2.7	-6.0	0.91	2.2	2.2				
Germany	-0.4	-0.5	-0.2	3.8	6.0	3.1	5.5	-2.2	2.2	-5.0	0.91	2.2	2.2				
Greece	1.8	0.1	2.4	2.9	4.0	9.4	-6.5	-2.1	3.4	-99.0	0.91	2.2	2.2				
Italy	0.1	0.4	0.7	0.5	6.1	7.5	0.7	-5.3	3.9	-37.0	0.91	2.2	2.2				
Netherlands	-0.8	-1.2	0.2	1.0	4.4	3.5	8.2	-2.1	2.5	-9.0	0.91	2.2	2.2				
Spain	1.8	1.2	2.3	3.3	3.5	11.9	1.6	-4.1	3.1	-20.0	0.91	2.2	2.2				
Czech Republic	-1.0	-2.5	-0.5	7.3	10.6	2.6	-1.4	-3.9	3.9	-71.0	22.4	-0.5	-0.5				
Denmark	-0.5	-2.6	1.5	0.7	3.8	2.9	11.1	1.5	2.4	-8.0	6.80	1.9	1.9				
Norway	-1.9	-2.1	0.4	4.8	5.4	3.6	17.2	10.6	3.4	29.0	10.3	-3.3	-3.3				
Poland	0.5	6.1	0.5	6.1	11.3	5.1	1.0	-4.8	5.2	-85.0	3.96	10.3	10.3				
Russia	5.5	na	2.8	7.5	6.2	2.9	3.0	-2.8	11.8	141	89.5	-22.3	-22.3				
Sweden	-1.4	-1.2	-0.6	5.8	6.0	7.1	4.6	-0.3	2.2	3.0	10.2	2.0	2.0				
Switzerland	0.3	1.1	0.8	1.7	2.2	2.2	7.2	-0.7	0.8	-56.0	0.85	8.2	8.2				
Turkey	5.9	1.1	4.3	64.8	53.1	8.8	-4.4	-5.0	23.7	1,508	30.0	-37.3	-37.3				
Australia	2.1	0.9	1.9	5.4	5.7	3.9	0.6	0.5	4.0	7.0	1.49	-2.7	-2.7				
Hong Kong	4.1	0.3	3.4	2.5	2.2	2.9	6.3	-1.7	3.5	15.0	7.82	-0.1	-0.1				
India	7.6	8.6	6.9	5.6	5.7	8.1	-0.5	-5.9	7.2	-13.0	83.0	-1.5	-1.5				
Indonesia	4.9	na	4.9	2.6	3.7	5.3	0.8	-2.5	6.6	-22.0	15,570	nil	nil				
Malaysia	3.3	na	4.0	1.5	2.5	3.3	1.8	-5.1	3.8	-15.0	4.64	-5.8	-5.8				
Pakistan	nil	2023**	na	29.7	31.4	6.3	-0.3	-8.0	15.0	96.0	281	-18.9	-18.9				
Philippines	5.9	13.9	5.4	3.9	6.0	4.2	-4.1	-7.2	6.3	-82.0	56.3	-2.5	-2.5				
Singapore	2.8	7.0	0.9	3.6	4.9	2.0	18.8	-0.7	2.9	-6.0	1.33	nil	nil				
South Korea	1.3	2.5	1.3	3.2	3.6	3.3	2.1	-2.7	3.4	-11.0	1,320	-5.7	-5.7				
Taiwan	2.3	7.8	1.2	2.7	2.5	3.4	12.9	-0.1	1.2	3.0	31.1	-2.2	-2.2				
Thailand	1.5	3.1	2.5	-0.8	1.3	0.9	0.8	-2.7	2.8	25.0	35.0	-4.2	-4.2				
Argentina	-0.8	11.3	-1.1	161	135.3	5.7	-3.4	-4.4	na	na	815	-77.9	-77.9				
Brazil	2.0	0.6	3.0	4.7	4.6	7.5	-1.4	-7.5	10.7	-209	4.89	7.0	7.0				
Chile	0.6	1.3	nil	3.9	7.6	8.7	-4.0	-3.2	5.6	24.0	918	-9.5	-9.5				
Colombia	-0.3	1.0	1.2	9.3	11.7	9.0	-3.4	-4.2	9.6	-354	3,952	21.7	21.7				
Mexico	3.3	4.3	3.4	4.7	5.5	2.8	-1.4	-3.8	9.2	59.0	17.0	12.6	12.6				
Peru	-1.0	-1.1	-0.5	3.2	6.3	7.3	-1.0	-2.7	6.8	-114	3.70	3.0	3.0				
Egypt	2.7	na	3.8	33.6	37.7	7.1	-1.6	-6.2	na	na	30.9	-10.4	-10.4				
Israel	3.3	2.5	0.9	3.3	4.3	2.8	5.4	-4.9	4.1	80.0	3.74	-7.2	-7.2				
Saudi Arabia	8.7	2022	na	1.7	2.3	5.1	3.0	-2.0	na	na	3.75	nil	nil				
South Africa	-0.7	-1.0	0.6	5.6	6.0	31.9	-2.1	-5.2	9.7	-13.0	18.7	-8.7	-8.7				

Source: Haver Analytics. *% change on previous quarter; annual rate. †The Economist Intelligence Unit estimate/forecast. ‡Not seasonally adjusted. §New series. **Year ending June. ††Latest 3 months. †††3-month moving average. §§5-year yield. ††††Dollar-denominated bonds. Note: Euro area consumer prices are harmonised.

Markets

In local currency	Index Jan 10th	% change on:	
		one week	Dec 30th 2022
United States S&P 500	4,783.5	1.7	24.6
United States NASComp	14,969.7	2.6	43.0
China Shanghai Comp	2,877.7	-3.0	-6.8
China Shenzhen Comp	1,732.7	-4.4	-12.3
Japan Nikkei 225	34,441.7	2.9	32.0
Japan Topix	2,444.5	3.3	29.2
Britain FTSE 100	7,651.8	-0.4	2.7
Canada S&P TSX	20,989.4	0.8	8.3
Euro area EURO STOXX 50	4,469.0	0.5	17.8
France CAC 40	7,426.1	0.2	14.7
Germany DAX*	16,689.8	0.9	19.9
Italy FTSE/MIB	30,450.8	1.2	28.4
Netherlands AEX	775.0	-0.6	12.5
Spain IBEX 35	10,067.1	0.1	22.3
Poland WIG	76,840.6	-0.3	33.7
Russia RTS, \$ terms	1,115.5	3.9	14.9
Switzerland SMI	11,255.0	0.8	4.9
Turkey BIST	7,874.2	6.2	42.9
Australia All Ord.	7,702.7	-0.7	6.7
Hong Kong Hang Seng	16,097.3	-3.3	-18.6
India BSE	71,657.7	0.4	17.8
Indonesia IDX	7,227.3	-0.7	5.5
Malaysia KLSE	1,486.9	1.7	-0.6

	Index Jan 10th	% change on:	
		one week	Dec 30th 2022
Pakistan KSE	63,919.9	-1.1	58.1
Singapore STI	3,180.0	-0.6	-2.2
South Korea KOSPI	2,542.0	-2.5	13.7
Taiwan TWI	17,465.6	-0.5	23.5
Thailand SET	1,413.5	-1.1	-15.3
Argentina MERV	1,070,425.0	10.1	429.7
Brazil BVSP*	130,841.1	-1.5	19.2
Mexico IPC	55,318.7	-0.7	14.1
Egypt EGX 30	25,466.8	0.2	74.4
Israel TA-125	1,880.0	-1.2	4.4
Saudi Arabia Tadawul	12,136.9	1.7	15.1
South Africa JSE AS	73,587.0	-1.2	0.7
World, dev'd MSCI	3,161.5	1.5	21.5
Emerging markets MSCI	989.0	-1.4	3.4

US corporate bonds, spread over Treasuries

Basis points	% change on:	
	latest	Dec 30th 2022
Investment grade	114	154
High-yield	400	502

Sources: Refinitiv Datastream; Standard & Poor's Global Fixed Income Research. *Total return index.

Commodities

The Economist commodity-price index				
2020=100	Jan 2nd	Jan 9th*	month	% change on year
Dollar Index				
All items	129.8	127.9	-0.5	-4.1
Food	130.1	128.7	-3.0	-8.8
Industrials				
All	129.5	127.2	1.8	0.2
Non-food agriculturals	127.2	127.0	1.9	-6.2
Metals	130.1	127.3	1.8	2.0
Sterling Index				
All items	132.1	129.3	-1.6	-8.3
Euro Index				
All items	135.5	133.8	-1.7	-5.8
Gold				
\$ per oz	2,066.6	2,027.5	2.2	8.1
Brent				
\$ per barrel	76.2	77.9	5.9	-2.8

Sources: Bloomberg; CME Group; Cotlook; Refinitiv Datastream; Fastmarkets; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd & Ewart; Umer Barry; WSJ. *Provisional.

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Wind, sand and stars

Mike Sadler, navigator and last member of the SAS "Originals", died on January 5th, aged 103

TO AN AMERICAN who met Mike Sadler in 1943 his most remarkable feature was his eyes. They were round and sky-blue, staring out of a sun-baked face grizzled with beard. They looked like the eyes of a drug-addled French poet, a man who at any minute might do some crazy thing.

In fact, he just had. For five days he had been trudging on foot through 100 miles of Tunisian desert. The SAS group he was with had been caught by the Germans, but he and two others had dropped into gullies and, by nightfall, got clear away. Knowing the lie of the land, and reading the stars, he led them through mountains and between salt lakes until they reached an area controlled by the Free French. A few dates were their only food, and their water a trickle tied in a goatskin. Now his hair was bleached and wild, his exposed skin blistered and his feet in tatters. But, as usual, he had steered his colleagues to safety.

In the fledgling SAS, founded only two years before, his skills were essential. Their top-secret task was to destroy the Axis bases and airfields strung out along the North African coast. Their *modus operandi* was to lurk deep in the desert to the south, presumed empty, and attack from behind the enemy lines. His job was to get them there in their customised Willys Jeeps (no top, no windscreen, open to wind, sand and sun) through a pathless landscape littered with boulders and creeping sand dunes hundreds of feet high. Without him, they would have been completely lost.

Navigation required both geometry and maths, but at school he was poor at both. He had more of a taste for sheer adventure, whetted by the stories of a classmate at Oakley Hall Prep who had been brought up in Africa with elephants and lions. When war broke out in 1939 he was working on a tobacco farm in Northern Rhodesia (later Zambia), and left it to join an artillery unit. But he was persuaded in a bar in Cairo to join the Long Range Desert Group (LRDG), which provided transport for the SAS and could train him

to tell by celestial signs exactly where his position was. It seemed to him a magic art, and the desert like being on the sea in a way. Reading the stars, you could go in any direction, a great sort of freedom. When the war was over he became a keen sailor.

In the desert, he was also given maps. Some were almost blank, with sparse dotted lines for "suspected camel track". He used the sun-compass invented by Ralph Bagnold, founder of the LRDG, which showed the sun-shadow in relation to the compass points but had to be constantly adjusted. In any case, they did not travel by day if they could help it. This meant he was up half the night finding suitable stars, taking star-readings with his theodolite, carefully recording them and then correcting the record the next day. Despite his efforts and the group's successes, he thought he was only a passable navigator.

He had been lured from the LRDG to the SAS (which now had its own Jeeps) by the thought of "operations". In practice he kept back. When the SAS raided the Wadi Tamet air base in Libya, killing 30 German and Italian pilots in their mess and destroying 24 parked planes, he was waiting on the perimeter. He had got the chaps there, across 400 miles of desert; now he had to get them out. A year later he guided a convoy of 18 Jeeps 70 miles across the Tunisian desert, navigating solely by the stars, to the base at Sidi Haneish. There they let rip, roaring en masse down the tarmac, firing their Vickers guns at the maximum rate and setting 37 aircraft ablaze. He counted the tally as his too, but again, necessarily, he was not in the thick of things.

In truth he was not gung-ho, despite his blond daredevil appearance. (He wore no headress, letting the wind and sand blow through him.) In daytime dead-reckoning navigation he refused to go by hunches, but carefully plotted out velocity over distance to measure the convoy's progress towards its target. When it came to fighting he had no wish to kill anyone, only to outwit them. A few of the chaps, including some he greatly admired, were a bit too fond of shooting off at things. But he still relished the occasional adrenalin rush of firing his Jeep's guns into the dark. And in a later job, escorting SAS paratroopers to their planes, he liked to hitch a ride himself, in the bomb-aimer's seat.

What pleased him greatly about the SAS was its informal structure. It was not like the regular army, with all that pointless marching up and down. He liked to keep his army uniform reasonably smart, but high-polished militarism repelled him. It reminded him of the young land-workers he had seen as a teenage tourist in Nazi Germany, marching with their spades like rifles over their shoulders. He never sought promotion, either, preferring to stay with his friends. When he was made a sergeant in 1941, and fell out marginally with an officer who insisted that his men slept in their boots (quite impractical in sleeping bags), he reduced himself to the ranks rather than apologise. In the SAS, a good lot of chaps who got on well together, he felt much more at home.

The desert commanded his love. It also greatly challenged him. On beautiful smooth patches, the Jeeps could reach 60mph; elsewhere they lurched through sharp stones that simply tore the tyres. Fleeing Tamet, he tried to mend a puncture by stuffing in blankets; rather maddeningly, the wheel disintegrated all the same. Later on that escape, with almost no water left in the other Jeep, everyone peed into the radiator to assist. At the very end, a few Stukas tried a bit of a strafe. Dust boiled up, but they got away.

The enemy often missed them, to the point where he and his comrades often felt they faced no risk at all. That was due less to him, he thought, than to the terrifically secret nature of the SAS, which suited him. After sabotage work in France, the rest of his career was in intelligence work of some sort or another, mostly for MI6. All he would reveal about it was that it involved a lot of sailing. The SAS, of which he was the last surviving "Original", had taught him well.

In very old age his sky-blue eyes were blind. But endless deserts of sand or sea lay behind them, mapped by the stars. ■



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